



PRIVATIZATION IN BANGLADESH: ISSUES, STRATEGIES AND POSSIBILITIES

ABSTRACT

THESIS

SUBMITTED FOR THE DEGREE OF

Doctor of Philosophy

IN

COMMERCE

BY

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UNDER THE SUPERVISION OF

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ALIGARH (INDIA)

1995

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ABSTRACT

The world war II which concluded in 1945 left the economies in complete ruins and shambles, except the United States of America (USA). The State-Owned Enterprises (SOEs) came into existence to fuse together economic rehabilitation and social welfare. The model was adopted all over the world irrespective of the state of economic development. The inflation of 1980's made it necessary for the government to prune its public expenditure and revitalise the market economy. The developed countries took the lead in curtailing the role of public enterprises (PEs) by disposing them off to private entrepreneurs. Since Uruguay Round Talk of GATT put a seal on the fate of the State-Owned Enterprises (SOEs), the norm of market economy and liberalisation in trade became the patent motives of economic reforms. At international level World Trade Organisation (WTO) has come into existence for unimpeded development of the world trade and investment.

Different methods have been adopted by the countries to implement privatization Programme ranging from outright sale of assets to Build-Operate Own (BOO) and Build Operate Transfer (BOT) techniques.

In Bangladesh, Privatization Programme has offered remedy to serious problems emanating from independence of Bangladesh in 1971. A number of industrial units were abandoned by Pakistanis; skilled labour and managers have fled the country. The government had no option but to take them over. In 1980, it became clear that the State-Owned Enterprises (SOEs) were not profitable and commercially viable. The loans to commercial Banks amounted to \$ 47 billion as of June 1993 and cumulative loss \$ 500 billion in 1994. The correctives for basic economic reforms led the government of Bangladesh to the conclusion

that instead of doling out public money to the State - Owned Enterprises (SOEs), privatization would be more effective step in the interest of economic progress and development. As a result, in 1982, Industrial Policy was adopted for privatization of the State-Owned Enterprises, denationalization of abandoned industrial units and disposal of shares in multinationals. The Industrial Policy of 1991 was the comprehensive programme for all out privatization including Communication, Power, Transportation and Social and Industrial Infrastructure. In 1991, international tenders were also invited directly and through the Stock Exchange. It also incorporated provision of employees - workers buyout.

The present thesis is premised on the hypotheses as follows:-

- a. That the Private Enterprises perform more efficiently than Public Enterprises.
- b. That the State-Owned Enterprises (SOEs) have considerably improved their performance after they were privatized.
- c. That an appropriate strategies are needed to be evolved for further privatizing State-Owned Enterprises (SOEs) in Bangladesh to obviate the obstacles and stumbling blocks confronted during the privatization process.

The facts of the study substantiate the hypothesis that Private Enterprises are run efficiently, economically and productively more than the Public Sector Enterprises. The Private Sector Enterprises have surpassed the Public Enterprises in terms of profitability, labour productivity and value addition.

Privatization has favourable effects on the privatization of State-Owned Enterprises (SOEs) in terms of both physical and financial performance. The reason for better performance of the privatized State-Owned Enterprises (SOEs) is complete autonomy, accountability and commercial targets as objectives of the management. These findings prove that the State-Owned Enterprises (SOEs) have given good account

of themselves after privatization.

Privatization programme should not be an adhoc measure. It must be a comprehensive strategy to strengthen privatization programme in future in Bangladesh. The hypothesis has been proved on the basis of the findings that reveal that Disinvestment Board (DB) has been created to formulate plan and policies regarding privatization programme of the State-Owned Enterprises (SOEs) in future. The Board works under the Ministry of Industries and implements the programme approved by the Cabinet. The Board is assisted by the Executive Committee and the Working Committee. However, all the Committees have been dissolved in 1993 following establishment of the Privatization Board (PB) which is empowered to initiate requisite measures for privatization programme. Later on, the study reveals that there have been certain snags in the privatization programme accounting for slow and sluggish progress. The Research Scholar is of the view that the privatization programme has been upset by the lack of consistent strategies. The absence of the appropriate methods of valuation of assets, absence of transparency and lack of proper policy for selecting capable buyers have come in the way of privatization programme.

There is opposition to privatization from politicians, trade union and bureaucrats. A strategy to properly educate the public is the pre-requisite of successful privatization programme besides a mechanism for proper co-ordination between different ministries. There is conspicuous absence of political commitment to privatization, proper regulatory framework, enabling environment and a developed capital market. There is not any Master Plan (MP) to evolve right kind of strategy and Action Plan (AP) for privatizing State-Owned Enterprises (SOEs). As a consequence, the privatization programme has made a slow progress in Bangladesh. The following recommendations are worth considering to make privatization programme effective in Bangladesh :-

There must be a clear-cut political mandate involving both the ruling and opposition parties to implement the privatization programme.

The government must have a clear vision on the direction of privatization. It must lay down specific details for privatizing the industries in future.

There must be sound method for the valuation of the assets of the State-Owned Enterprises. The experts must be employed to undertake the job. The transactions must be transparent both for investors and the public at large. A mechanism for proper screening of tenders must be evolved without coming under the political pressures and influences.

Regulatory environment is of paramount importance to take care of countervailing forces which can render the whole exercise of privatization useless. Malaysian model is recommended by the Research Scholar for taking trade union into confidence for privatization programme. In this context,, Employee Stock Ownership Plan (ESOP) is recommended as an effective plan. It is equally important to mobilise public in support of the privatization programme. Mass media must be employed to educate the public.

The post privatization monitoring programme is also strongly recommended to evaluate performance of privatized State-Owned Enterprises (SOEs). In case of any evidence revealing privatization harmful to public interest, it is recommended that the government should retain the authority of management for sometime.

A set of modelities is recommended by the Research Scholar in place of limited modelities including employee buyout, share market operations, management contracts, Build-Operate-Own and Build-Operate-Transfer (Boo-BOT), Private participation in sectors of state monopoly, joint public private ownership etc. The techniques should be employed in the light of the prevailing circumstances of a particular industry. For instance, marginalisation and quiet liquidation techniques are suitable for privatizing politically powered State-Owned Enterprises (SOEs). Liquidation is considered the only wayout for sick public enterprises. The existence of developed capital market, removal of bureaucratic red tapism, liquidation and bankruptcy laws are the measures which must precede privatization in Bangladesh.

The pace of privatization would gain momentum if the industries cooperate with the Ministries and the Privatization Board (PB). In order to make the Privatization Board (PB) effective, the Research Scholar recommends more autonomy for the Board. The Research Scholar also strongly recommends that monopoly and oligopoly must be broken by creating conditions of competition including freedom of trade and investment both for private and foreign entrepreneurs. Finally, it should be time bound programme as done in Malaysia, Singapore, Philippines, South Korea, Japan, Srilanka, Thailand etc.

The Research Scholar has recommended the short term intensive programme to be arranged by Privatization Board (PB) for conducting the schemes along the lines adopted in other Asian countries. However, the Research Scholar is of the view that State-Owned Enterprises (SOEs) must be given a "perform or perish" mandate before disinvestment or privatization. It is the firm opinion of the Research Scholar that the erosion of net worth should serve the real justification for privatizing any State-Owned Enterprises (SOEs).

Looking at the complexities and complexion of privatization, the timetable of privatization must be flexible to allow for smooth transition from state ownership to private ownership. However, no privatization would serve any purpose without evolving sound business policies for market development and product management. The success of the programme hinges upon the stable micro and macro economic environment including trade liberalisation, price liberalisation, financial sector reform, fiscal reform and monetary reform in Bangladesh. It should be put into Master Plans (MP) for proper and effective implementation of privatization in Bangladesh.

In essence, privatization can be meaningful if it is combined with other reforms in Bangladesh including institutional reforms and right kind of strategies as recommended in the foregoing paragraphs.



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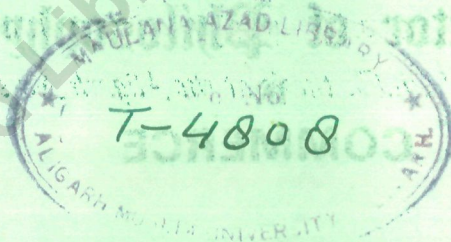
Dated:



THESIS SECTION

STRATEGIES AND POSSIBILITIES IN PRIVATIZATION IN BANGLADESH: ISSUES

THE STUDENT HAS COMPLETED HIS PROJECT
AND THE PROJECT HAS BEEN APPROVED BY THE
THESIS SECTION FOR THE DEGREE OF M.A. IN
COMMERCE. THE PROJECT IS BEING SUBMITTED
FOR THE DEGREE OF M.A. IN COMMERCE.



T-4808

DATE RECEIVED: 17 SEP 1997
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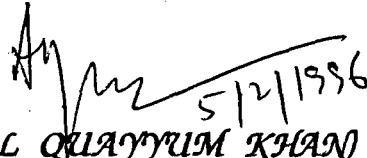


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TO WHOM IT MAY CONCERN

This is to certify that Mr. Md. Alauddin has completed his present thesis entitled "PRIVATIZATION IN BANGLADESH: ISSUES, STRATEGIES AND POSSIBILITIES", under my supervision. To the best of my knowledge the work is of original nature. It also fulfils the requirements for the submission of Ph.D. thesis at the Aligarh Muslim University, Aligarh.


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ACKNOWLEDGMENTS

Praise and thanks be to Allah, first and last, Lord and Cherisher of all the Worlds who taught humankind everything they knew not.

My vocabulary fails in expressing most sincere gratitude to my supervisor, Dr. ABDUL QUAYYUM KHAN, Lecturer, Department of Commerce, for careful and able guidance rendered by him althrough the present research work. Needless to say that without his honest supervision, it would have not been possible to crystalise the present thesis into reality.

I shall also remain beholden to Dr. M. Asif Ali Khan, Senior most Reader of the Department of Commerce, AMU, Aligarh, whose fatherly patronage and moral support have been the great source of inspiration during the entire course of the present study.

I owe my thanks to Prof. A. Farooq Khan, Chairman, Department of Commerce, Prof. Azhar Kazmi, Dean, Faculty of Commerce, Prof. Nafees Baig, former Dean and Chairman, Prof. Mahfoozur Rahman, Prof. Mohammad Moshtaq Khan, Dr. Zamruddin Khan and all other faculty members for their co-operation and encouragement.

I am also grategul to Prof. Kondokar Bazlul Haq, Prof. Durgadas Bhattacharya, Prof. Abu Ahmed, Dr. Mizanur Rahman of Dhaka University for their valuable suggestions and support from time to time during the course of the study.

The financial support provided by the Government of India and study leave sanctioned by the Government of Bangladesh for the entire period of study are gratefully acknowledged.

Mrs. Shakeela Khan, wife of Dr. A.2. Khan, deserves my best compliments and gratitude for her sister like hospitality and encouragement during my stay at Aligarh. I am also indebted to my roommates Mr. Zahed Hosain Sikder, Research Scholar, Department of Business Administration, AMU, Aligarh and Mr. Md. Abul Quasem, Research Scholar, Department of Physics, AMU, Aligarh, who have always extended their co-operation in many ways. I must express my gratitude to Mrs. Ferdaus Ara Begum, Deputy Secretary (Research), The Dhaka Chamber of Commerce and Industry for providing me necessary research materials and suggestions for the present study.

I am thankful to my Mother, Father-in-Law and Mother-in-Law whose affection and sacrifice for my academic cause can never be compensated. My maternal uncle, Mr. Abdul Ali, also deserves my compliments who has always showed keen interest regarding my study.

I am grateful to my beloved wife, Mrs. Mahbooba Shireen (Jolly) whose co-operation and encouragement stimulated me for higher academic pursuits.

I wish to express my gratefulness to Mr. Shazad Ali, Mr. Md. Shamshad Khan (Deptt. Office), Mr. A.Rashid Husain, Mr. M. Ali Hasan and Mr. Anis, of the Seminar of the Department for their help and cooperation in all ways.

In the last, I also wish to thank to Mr. Abul Kalam Azad (Computer Professional) Competent Xerox Centre, Champion Market, Aligarh, for careful computer composing of the present thesis.

Handwritten
(MD. ALAUDDIN)

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PREFACE

The State-Owned Enterprises (SOEs) and State Control System were painstakingly constructed during 1950s, '60s and early '70s all over the world, mainly with a view to achieve commanding heights of the economy. In this process, the fulfillment of social objectives was top of the agenda. These decades, hence, were considered to be the period of mushroom growth and development of public enterprises. However, over the period of time it was realised that these enterprises were failing miserably to meet the socio-economic objectives set for them as majority of them, in most of the countries, were running into red. The reasons assigned to their lack-lustre performance were gross inefficiency and ever declining overall factor productivity.

Hence, with the onset of the decade of '80s the wind of economic reforms began to blow all over the world, specially in the developed countries like, the United Kingdom(U.K.) and the United States of America(U.S.A.). These Countries, later on, played a pioneer role holding a forceful debate with regard to adoption of reform packages under the banner of liberalisation and globalisation. Market economy started gaining currency. It was here only that the privatization was recognized as a proper and effective tool for economic transformation and development. There is now consensus that the privatization generates forces for improvement in the economy. It improves efficiency of production, reduces the burden on their budget, lowers the debt burden and, on the whole, ameliorates the living standard by infusing spirit of competition.

Thus, the year 1990 ushered in unique kind of global revolution. The United Kingdom (U.K) which championed embarking upon the privatization process in 1980s set an example for other many more countries to emulate by shifting their SOEs in one form or in other to the private sectors. The process of privatization gained requisite momentum and currency in 1990s pervading all over the world.

Bangladesh is no exception to this phenomenon. In Bangladesh too, the State-Owned Enterprises (SOEs) grew by leaps and bounds just after the war of liberation (1971) and introduction of socialistic approach to the economy. However, over the period of time the State Owned Enterprises (SOEs) failed to achieve their socio economic objectives and thus incurred huge losses exerting heavy pressure on the national exchequer. They became an unsustainable burden on the government.

It was in 1976 that the new government of president Ziaur Rahman brought about radical changes in the economic policy discarding the socialistic approach and announcing the adoption of denationalisation policy. Since then, several changes have been made in the Industrial policies from time to time with a view to opening the door of economy for private participation. The privatization programme in Bangladesh was chalked out vigorously after the declaration of Industrial Policies of 1982, 1986 and 1991.

The present study regarding privatization in Bangladesh is designed to analyse the emerging issues in implementing the privatization programmes and policies. An endeavour

has also been made in the present study to evolve some appropriate set of strategies to deal with upcoming issues for effective future privatization.

Scheme Of Chapterisation (A Preview):

The present study has been divided into seven chapters. The framework of each chapter is briefly adumbrated as under:

In the first chapter, privatization in relation to market economy has been discussed at length. The pattern of growth of State-Owned Enterprises (SOEs) in both developed and developing countries has been analytically studied. This chapter also explains as to how privatization movement towards the market economy begins through out the world. Lastly, the study has focussed on the privatization movement in Bangladesh.

The second chapter presents the layout of the study. It provides the detailed review of literature examining previous studies on privatization of SOEs the world over as well as in Bangladesh. The present chapter also entails an analysis of the problems, need for the study, scope and objectives of the study. Then it introduces the research hypotheses, research methodology and limitations of the study.

The third chapter highlights the concepts and the dimensions of privatization from different view points and angles. This chapter critically reviews the definitions of privatization from macro and micro level.

The fourth chapter gives a vivid description as regards rationale of privatizing State Owned Enterprises (SOEs) in Bangladesh. Evolution of SOEs in Bangladesh with their evaluation of financial performance has also been incisively analysed. A comparative analysis of public and private enterprises regarding profitability, productivity, value addition, employment etc. has been taken up for critical examination.

Chapter five deals with the ongoing programmes of privatization in Bangladesh along with emerging issues regarding implementation of privatization programme. This chapter throws light mainly on Industrial Policies vis-a-vis privatization, disinvestment in Bangladesh and some emerging issues relating to Privatization. Strategies for effective privatization programme and possibilities of future privatization in Bangladesh have been presented in chapter six.

The final chapter contains a summary of conclusions and recommendations for the success of privatization programmes in Bangladesh. The recommendations would have far reaching effects on policies for smooth transition to market economy after the completion of privatization for complementarity with SAARC economies and global competitiveness.

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LIST OF ABBREVIATIONS AND ACRONYMS USED

ADB	=	Asian Development Bank.
APT	=	The Asset Privatization Trust.
ASEAN	=	Association of South-East Asian Nations.
BADC	=	Bangladesh Agriculture Development Corporation
BCIC	=	Bangladesh Chemical Industries Corporation
BFDC	=	Bangladesh Fisheries Development Corporation
BHB	=	Bangladesh Handloom Board
BIMAN	=	Bangladesh Biman
BIWTA	=	Bangladesh Inland Water Transport Authority
BIWTC	=	Bangladesh Inland Water Transport Corporation
BJC	=	Bangladesh Jute Corporation
BJMC	=	Bangladesh Jute Mills Corporation
BOGMC	=	Bangladesh Oil, Gas and Mineral Corporation
BOO	=	Build Operate Own
BOT	=	Build Operate Transfer
BPC	=	Bangladesh Petroleum Corporation
BPDB	=	Bangladesh Power Development Board
BPRC	=	Bangladesh Parjatan Corporation
BRTC	=	Bangladesh Road Transport Corporation
BSB	=	Bangladesh Sericulture Board
BSC	=	Bangladesh Shipping Corporation
BSCIC	=	Bangladesh Small and Cottage Industries Corporation
BSEC	=	Bangladesh Steel and Engineering Corporation
BSFIC	=	Bangladesh Sugar and Food Industries Corporation
BTTB	=	Bangladesh Telegraph and Telephone Board
CCOP	=	Cabinet Committee on Privatization
CCPRAO	=	Cabinet Committee on Privatization, Regulatory Affairs and Operations
CDA	=	Chittagong Development Authority
COPE	=	Committee on Public Enterprises
CSIS	=	Centre For Strategic And International Studies
CWASA	=	Chittagong Water Supply and Sewerage Authority
DESA	=	Dhaka Electricity Supply Authority
DFIs	=	Development Financial Institutions
DGI	=	Director General of Industries
DI	=	Disinvested
DN	=	Denationalized
DWASA	=	Dhaka Water Supply and Sewerage Authority
ECNEC	=	Executive Committee of National Economic Council
EPU	=	Economic Planning Unit
EPZA	=	Export Processing zone Authority
ESOP	=	Employee Stock Ownership Plan
FBC	=	First Boston Corporation
FDI	=	Foreign Direct Investment

GATT	=	General Agreement on Trade and Tariff
GDP	=	Gross Domestic Product
GKI	=	State Committee on the Management of State Property
GNP	=	Gross National Product
GOB	=	Government of Bangladesh
ICOP	=	Inter-Ministerial Committee on Privatization
IMF	=	International Monetary Fund
INI	=	National Institute of Industry
IP	=	Industrial Policy
IRI	=	Institute for Industrial Reconstruction
JNR	=	Japan National Railways
JR	=	Japan Railways
KDA	=	Khulna Development Authority
LDCs	=	Less Developed Countries
MSE	=	Ministry of State Enterprise
NAFTA	=	North American Free Trade Area
NIP	=	New Industrial Policy
NTT	=	Nippon Telegraph and Telephone
OECD	=	Organization For Economic Co-operation and Development
OPRA	=	Office of Privatization And Regulatory Affairs
RAJUK	=	Rajdhani Unnayan Kartipakhya
REB	=	Rural Electrification Board
SAARC	=	South Asian Association of Regional Co-Operation
SOEs	=	State - Owned Enterprises
SPA	=	State Property Agency
SSA	=	Sub-Shahara Africa
TCB	=	Trading Corporation of Bangladesh
USA	=	United States of America
USSR	=	Union of Soviet Socialist Republic
VDS	=	Voluntary Departure Scheme

CHAPTER - I

PRIVATIZATION AND MARKET ECONOMY: GLOBAL PERSPECTIVE ANALYSIS

This chapter presents a vivid analysis as regards the privatization movement the world over vis-a-vis the market economy and takes into account the gains and the losses of privatization programme in global perspective. The subject matter of this chapter has been framed up in the following manner:-

- 1.1 Introduction
- 1.2 State Owned Enterprises (SOEs) In Developed Countries.
- 1.3 State Owned Enterprises (SOEs) In Less Developed Countries (LDCs).
- 1.4 The Privatization Movement All Over The World.
- 1.5 Privatization Movement In Bangladesh:
 - a) Background of Industrial Development,
 - b) Movement of Privatization.
- 1.6 Gains And Losses Of Privatization : Global Perspective
 - I. Privatization In Developed Countries.
 - II. Privatization In Erstwhile Socialist Countries.
 - III. Privatization In ASEAN Countries.
 - IV. Privatization In SAARC Countries.
 - V. Privatization In Sub-Shara African Countries.
 - VI. Privatization In Latin American Countries.
- 1.7 Conclusion
- References.

1.1 Introduction:

Since 1945, most of the countries of the world started creating State-Owned Enterprises (SOEs) with a view to achieving economic growth and social objectives. The State Owned Enterprises (SOEs) phenomenon gained momentum in the decade of 1960s and 1970s. In these decades, the wind of development of SOEs was blowing in both the developed and developing countries. SOEs were considered as a vital source of progress and development. "For the last half-a-century, nationalization has been the fad-from the Fabian socialist to the communist, from Great Britain to India to Israel to the communist block covering USSR, China, Cuba, Vietnam, North Korea and Eastern Europe".¹ They sought to increase operational efficiency in the SOEs by command economy instead of market economy. However, with the advent of the decade of 1980's the concept of market economy began to muster favour the world over. It gained currency as a good model of economic development.

1.2 State Owned Enterprises(SOEs) In Developed Countries

Some evidences as regards the growth and development of SOEs in the developed countries may be cited here, such as, Australia's, state holding company consisted of 198 enterprises². 'In France, the whole of fertilizer and telecommunication, 75 per cent of steel, 50 per cent mining, motor vehicles, petrochemicals, Electronics and 25 per cent of Textiles were in Public Sector.'³ Britain and the USA had also a significant number of state enterprises.⁴ By the end of the decade of 1970s, 'nearly half of the IMF member countries were seen spending over almost one third of their GDP in the public sector'.⁵ So, these decades were ascribed to the hasty growth and evolution of public enterprises the world over.

But after 70's this phenomenon began to change chiefly because of disappointing performances of SOEs. They were proved to be inefficient. In many countries, SOEs became an unsustainable burden on the government budgets. However, reform programmes for improving the performance of SOEs were adopted in many countries but failed to attain the objectives.

Therefore, in the decade of '80s, the very move of privatization started. It was first started in Britain during Thatcher's regime. In France also it started at the same time. Italy and Japan started privatization in the mid '80s. The Privatization programme in Eastern Europe got impetus due to disintegration of USSR and unification of Germany in 1989. Thus the dominant role of public enterprises lessened, specially in the Eastern and Central Europe. Further, with creation of North American Free Trade Area (NAFTA) and signing of Uruguay Round Talk under GATT, all countries of the world became free to enter into world competition. Keeping this in view, almost all the countries of the world adopted vigorous reform programme of privatization.

1.3 State-Owned Enterprises (SOEs) In Less Developed Countries (LDCs)

Less Developed Countries (LDCs) in mison with the developed countries, laid considerable emphasis on the growth of large sector State-Owned Enterprises (SOEs). " In fact there was a growing need for education, health care, roads and other infrastructure as well as for industrial diversification". This compelled the government to spend huge money on creation of SOEs to operate industrial and other activities in the developing countries.

Table-1 shows the growth of State-Owned Enterprises (SOEs) during 1960-80s. It is discernible from the table that the decades of '60s and '80s were the era of rapidly growing SOEs. As seen from the table that the number of SOEs in the

TABLE - 1
GROWTH OF PUBLIC ENTERPRISES DURING 1960s-80s.

Countries	1960s	1980s	Growth in (per cent)
Mexico	150	400	166.67
Brazil	150	700	366.67
India	005	232	4540
Tanzania	n.a.	400	-
Chile	150	375	150
Turkey	n.a.	200	-
Malaysia	n.a.	736	-
Kenya	n.a.	325	-
Argentina	n.a.	350	-

n.a. Not available

SOURCE: Computed by the Research Scholar from:

- i) Sunita Kikeri, et.al., "Privatization : Lessons from Market Economies, "The world Bank Research observer, Vo.9, No.2, 1994, PP. 242-244.
- ii) Mohnot, S.R. (ed.), " Privatization : Options and Challenges", CIER, New Delhi, 1991, P130.

countries under reference increased manifold. In Mexico, the number of SOEs was 150 in 1960s which increased to 400 in 1980s an increment of about 166.67 per cent, while in case of Brazil, the growth trend in the establishment of SOEs accounted for about 3.66.67 per cent. India was the champion in establishing the public sector enterprises. The growth of SOEs in India grew phenomenally to the tune of whopping 4540 per cent during the period review. The other countries under reference also followed the similar increasing trend.

In majority of the countries of the world the State-Owned Enterprises (SOEs) came into being on priority basis with a view "to replace weak private sectors, to produce higher investment ratios and extract a capital surplus for investment in the economy, to transfer technology to strategic sectors, to generate employment and to make goods available at lower costs".⁷ The trend towards establishing SOEs was so rapid and wide spread that Elliot Berg,⁸ termed it a "quiet revolution" that occurred in shifting of resources into the public sector.

After 70s, the wind of public enterprises phenomenon began to change because of disappointing and dismal performance of SOEs. A large number of SOEs proved economically unviable and inefficient continuously incurring heavy losses and as a result created hard pressure on national budget instead of being able to generate new resources. Hence they miserably failed to achieve their objectives. Many countries were even unable to continue with existing financial losses of SOEs. In Britain, "the borrowings and losses of State Owned Enterprises (SOEs) were running about \$ 3 billion a year"⁹. As shown in table -2, the SOEs losses as a percentage of GDP reached about 9 per cent in 1989 in Argentina and Poland. Yugoslavia and Sub-Saharan African countries accounted for losses to the tune of 7 per cent and 5 per cent of GDP respectively in 1991.

"Through 1980s about half of Tanzania's 350 SOEs persistently ran into losses that had to be covered from public funds. In Ghana from 1985 to 1989, the annual outflow from government to fourteen major SOEs averaged 2 per cent of GDP"¹⁰. SOEs Losses in Korea reached to the tune of 26570 million in 1990 and in the same year in China about 30 per cent of all SOEs incurred losses that absorbed a sixth of government budgetary expenditure¹¹.

Many countries suffered adversely from external debt problems also that led to negative growth. For example, in Malaysia, there was a marked increase in the external debt from RM 7.3 billion (14.2% of GNP) in 1980 to RM 16.9

TABLE -2
LOSSES OF SOEs DURING 1989-'91

Countries	Losses (% of GDP)
Argentina	9
Poland	9
Yugoslavia	8
Sub-Sahara	
African countries	5

SOURCE: Compiled from Sunita Kikeri, et.al., "Privatization: Lessons of Experience," The World Bank, 1992, p. 15.

billion (28% of GNP) in 1982 and it peaked at RM 50.5 billion or 76% of GNP in 1986¹². Again, outstanding government's loans to SOEs increased from 500 million to 1.9 billion in Ghana in 1985.¹³ The debt crisis was toxic in both the regions (Eastern and Latin America). These countries were running out of Budgetary resources to continue feeding these enterprises in the interim, until they turned around.¹⁴

Table - 3 gives accounts as regards the provision for subsidies towards SOEs of some of the countries during 1982-90. It is seen in the table that the government subsidies to SOEs accounted for more than 3 per cent of GDP in Mexico, 4 per cent of GNP in Turkey and 9 per cent of GDP in Poland between 1982 and 1990. In some of the west African countries like Benin, Ghana, Senegal etc., subsidies to SOEs ranged from 8 per cent to 14 per cent. Six per cent increment in the subsidy provision during the period under review was attributed to very poor performance of SOEs in these countries. In case of Bangladesh the trend in subsidy provision was almost the same as the subsidy ranged from 0.8 per cent to 3.2 per cent of GDP during the period under reference.

The reasons behind the nagging performance of the SOEs the world over are various such as, lack of skilled management, lack of clear sense of direction, lack of commercial autonomy, problem of overmanning in some cases, sacrifice of commercial and money making objectives to social obligation, lack of advanced technology, and political commitment etc'.¹⁵

TABLE - 3
SUBSIDIES PROVIDED TO SOEs DURING 1982-90
(Per cent of GDP)

Countries	Subsidies
Mexico	above 3
Turkey*	4
Poland	9
West African Countries (Benin, Ghana, Nigeria, Senegal)	8 to 14
Bangladesh	0.8 to 3.2

* GNP = Gross National Product.
GDP = Gross Domestic Product.

SOURCE : Compiled and computed from Sunita Kikeri, et. al., "Privatization: Lessons from Market Economies", No.2, 1994, p. 243.

Since in most of the countries, SOEs had become crucial in both industrial and service sectors, so they always enjoyed monopoly. And therefore, their monopoly status in turn created inefficiency and lack of competitiveness that made enterprises unfit to sustain in the competitive world.

The decade of 1980s was referred to as an era of advanced technology i.e. information based technology. It was also termed as the fourth industrial revolution. Technological revolution affected the competitiveness in a wide range of industrial sectors of LDCs.

1.4 The privatization Movement All Over The World:

It was in the decade of 1980s, the reform programme of privatization started and reached its highest peak of popularity in 1990s. In the current decade, more than 2000 SOEs have been privatized in developing countries and 6,800 the world over".¹⁶

Table - 4 gives an analytical picture as regards the privatization of SOEs world wide during 1980-91. It is indicative from the table that out of

the total countries under reference, German Democratic Republic, (GDR) privatized 4500 SOEs representing about 66 per cent of the total units of the world wide Privatization. Latin American and Caribbean countries privatized 804 SOEs registering 12 per cent of the total followed by Eastern European countries, Sub-Saharan African countries, OECD countries, Asia and Middle East and North Africa.

It is quite prominent to note that the German Democratic Republic (GDR) has championed the cause of privatization. Latin American countries and Eastern European Countries have also been pursuing the privatization programme vigorously.

TABLE - 4

SOEs PRIVATIZED WORLD WIDE BY REGION, 1980-91

Region	SOEs	Per cent of the total units the world over
Former GDR	4500	65.87
Middle East and North Africa	58	0.85
Asia	122	1.79
Sub-Saharan Africa	373	5.46
Latin America and the Caribbean	804	11.77
Eastern Europe (Other than GDR)	805	11.78
OECD Countries	170	2.49
Total	6832	100

SOURCE : Compiled and computed by the Research Scholar from Sunita, Kikeri, et.al., "Privatization: Lessons of Experience", The World Bank, 1992, p. 22.

With the decline of communism in Eastern and Central Europe in 1989, the SOEs dominant role drastically changed in the economy in favour of privatization process for economic reform process to create the basis for a market economy in almost all the LDCs under the banner that "reduce the role of government and expand the scope of private sector-led growth." The developed industrial countries such as the United States of America and the United Kingdom also made forceful ideological expression for privatization. The intellectual debate on privatization and restructuring increased interest

in this regard. Other well known cases such as "the reprivatization of the Rumasa group in Spain and the partial divestiture of holdings in the IRI Group in Italy served as demonstration cases for certain developing countries, particularly those in Latin America".¹⁷ The international agencies were also influenced by the opinions in favour of privatization and accordingly contributed towards it. "The IMF and the World Bank's restructural adjustment loans inevitably, came with conditionality clauses promoting the sale of public enterprises."¹⁸

The above facts and figures are substantiated in Table 5 which presents an account of the number of annual loans and credits provided by the World Bank for privatization operations in developing countries during 1981-91. It is discernible from the table that the number of annual loans and credits increased every year except in the years 1983 and 1988. In these years, loans and credits remained stagnant. In 1989 and 1991, the number of loans and credits did not increase rather decreased as compared with the previous year.

TABLE - 5

NUMBER OF ANNUAL LOANS AND CREDITS PROVIDED BY THE WORLD BANK IN THE DEVELOPING COUNTRIES DURING 1981-'91.

Year	No. of Annual Loans and Credit	% Increase/ decrease
1981	1	-
1982	2	100
1983	2	-
1984	7	250
1985	10	42.86
1986	11	10.00
1987	23	109.09
1988	23	-
1989	21	(8.7)
1990	37	76.19
1991	29	(21.62)

SOURCE: Compiled and computed from S.K. et. al., "Privatization Lessons of Experience". The World Bank, 1992, p. 33.

Another influencing appeal of privatization is enhanced revenues of the government "In Mexico transfers and subsidies from government to SOEs declined by 50 per cent between 1982 and 1988".¹⁹ This potential gains worked as a motivating factor for policy makers in many countries to pursue a privatization policy. Table-6 displays revenue earning by selling SOEs in

different countries under reference during 1980-91. It is clear from the table that Mexico was on the top position of selling SOEs which earned \$ 8350 million i.e. 43.83 per cent of total sales proceeds among the countries under review. Then Chile occupied the second position with its earning to the tune of \$ 3400 million, Brazil \$ 3071 million representing 17.85 per cent and 16.12 per cent respectively followed by Malaysia, Argentina, Philippines and Jamaica.

TABLE - 6

GROSS PROCEEDS FROM PRIVATIZATION 1980-91
(US \$ million)

Countries	Proceeds	% of the total proceeds
Mexico	8350	43.83
Chile	3400	17.85
Brazil	3071	16.12
Venezuela	2000	10.50
Argentina	1500	07.87
Philippines	0310	01.63
Jamaica	0230	01.21
Malaysia	0188	00.99
Total proceeds	19049	100

SOURCES : Compiled and computed from S.K. et.al., " Privatization: Lessons of Experience", The World Bank, 1992 p. 30.

Table - 7 shows the sales proceeds of the countries under reference for the period of the first half of 1994. It has been noticed from the table that Peru has earned substantial amount of revenue to the tune of \$ 2226 million that accounts for almost 32.22 per cent of the total proceeds. India has registered sales proceeds amounting to \$ 1181 million representing 17.10 per cent, followed by Colombia, Cuba, Argentina with sales proceeds of \$ 700 million and 605 million respectively. Ghana and Mexico have recorded the sales proceeds to the order of \$ 400 and \$ 476 million representing 5.79 and 7.96 per cent of the total proceeds respectively. China (Public enterprises dominated country) has also earned from privatization to the tune of \$ 476 million which represents 6.89 per cent of the total proceeds among the countries under review.

TABLE - 7
SALES PROCEEDS FROM PRIVATIZATION IN THE FIRST
HALF OF 1994

(US \$ million)

Countries	Sales proceeds	% of total proceeds
Peru	2226	32.22
India	1181	17.10
Colombia	770	1.15
Cuba	700	10.13
Argentina	605	8.76
Mexico	550	7.96
China	476	6.89
Ghana	400	5.79
Total proceeds	6908	100

SOURCE : 'Compiled and computed from Privatization International' July, World Bank Bulletin 1994 p. 2.

The sum up, it may be inferred that most of the countries of the world have adopted vigorous reform programme of privatization with a view to obviating the causes of sluggish performance of SOEs and to make the economy fit for facing the hard and cut throat competition in the global market.

1.5. Privatization Movement Bangladesh:

a) Background of Industrial Development:

The industrial base of Bangladesh is small. "Its contribution to GDP stagnated around only 10 per cent during the last 18 years."²⁰ The Industrial development of this country took the pattern of public sector since British rule. During partition of British India, the then East Pakistan (Now Bangladesh) inherited a little number (only 2 per cent of the total units) of enterprises. Among these, most of the enterprises were owned and run by Pakistanies. In 1971, there was a brutal civil war between East Pakistan (now Bangladesh) and West Pakistan. Bangladesh, however, won independence in 1971.

There was a magnificent growth of public enterprises after the post liberation period (1971-1975). At that time, industrial and commercial management faced a major problem because mass exodus of Pakistani owners, managers, and entrepreneurs created a great vacuum. In order to fill this vacuum, "all abandoned properties including 725 industrial units were brought under the government control and management by declaring P.O. No.1, dated January 3, 1972".²¹ Again, the government promulgated on March 26, 1972 the ordinance that "the government nationalised all abandoned enterprises with assets valued at Tk. 1.5 million and above along with the entire Jute, Textile and Sugar industries".²² The eleven sector corporations were established. "These measures led to increase in public ownership of industrial fixed assets from 34 per cent to 92 per cent"²³. In 1976, under the amendment of presidential Order 27, some of the public corporations in the industrial sector were merged and constituted three corporations. These three public corporations along with BJMC, BTMC and BFIDC now constitute six manufacturing public corporations with 386 enterprises under them.

(b) Movement Of Privatization:

In the beginning of the decade of '80s, it was realised that majority of the SOEs miserably failed to generate expected revenue rather they were incurring heavy losses so much so that they became a burden on the national exchequer. The following table - 8 provides an analysis of the SOEs losses during 1990-91 - 1994-95. It is discernible from the table that in 1990-91, SOEs incurred losses amounting to Tk. 800 crore which jumped at Tk. 1600 crore in 1991-92 which is almost 100 per cent when compared with the previous year. The amount of losses incurred by the SOEs were the same in the year 1992-93 and 1993-94 i.e. Tk. 2000 crore each. In 1994-95 the losses were enormous to the tune of Tk, 2500 crore which recorded 25 per cent increase from the previous year i.e. 1993-1994. The causes of whopping losses by the SOEs over the period under review have been said to be created owing to mismanagement, corruption, lower productivity, labour unrest, strike and lock outs etc.

The government of Bangladesh adopted reform programme with the declaration of New Industrial Policy (NIP) in 1982. The door of privatization opened gaining momentum in the Industrial policy of 1986. Under this policy, various restrictive regulations were unleashed facilitating the process of privatization to go smoothly. The promulgation of Industrial Policy of 1991 further assured the continuance of the privatization policy making the provision of spreading out the ownership among the general public. The international agencies like the International Monetary Fund (IMF), the World Bank, the Asian Development Bank (ADB) have also been helping in various ways for making reform programme a successful.

TABLE - 8
LOSSES OF SOEs DURING 1990-91 - 1994-95
(Tk in crore)

Year	Losses	% of increase/ Decrease
1990-91	800	-
1991-92	1600	100
1992-93	2000	25
1993-94	2000	-
1994-95	2500	25
Total	8900	

SOURCE : Compiled and Computed from 'The Daily Inqilab' (Bangla), 22 June, 1995, Dhaka, Bangladesh, p. 4.

1.6 Gains and Losses of Privatization : Global Perspective:

Privatization is now a global phenomenon. There is now almost consensus among the various sections of the academia that no economy whether developed or developing can afford to compete with global economies without resorting to the process of privatization. In the succeeding paragraph, an analytical study is made with regard to the gains and losses of the privatization in important countries of the world.

I. Privatization In Developed Countries:

a) United Kingdom:

After the 2nd world war, the then government of the labour party nationalised almost all industries like-Coal, Steel, Electricity Generation, Gas Supplies, Railways, Docks, Cannals and Trucking²⁴ and the British Telecommunication, Air Craft and Ship Building, North Sea oil and Silicon-chip production were State Owned Enterprises. But total performance of these enterprises were sluggish and they were running with 'negative return on capital, Low productivity, high cost, high prices, bad labour relations, inefficient use of resources and unsatisfactory customer services.'²⁵

In 1979, Thatcher government of the conservative party, decided to transfer these loss oriented enterprises to the private sector and at that time the seedlings of privatization in U.K. was grown up and continued till 1991.

Objectives Of Privatization

Privatization programme in U.K. has been adopted with a view to attaining the following main objectives:

1. To reduce involvement of the state or public sector in economic activity.²⁶
2. To improve productivity and efficiency through competition.²⁷
3. To augment government income through sale of stock in nationalised corporations and thus helps lowering taxation which had reached very high levels.²⁸
4. To reduce borrowings.²⁹
5. To encourage employees to own shares in the company in which they work.³⁰
6. To boost the level of share ownership in the general economy.³¹
7. To strengthen the capital market ³², and
8. To gain domestic and international prestige.³³

Forms or Methods of Privatization:

Various methods of privatization have been followed in regard to privatization in U.K. depending upon the company concern - 'its structure, size and the competitive environment in which it operated'.³⁴ However some of the methods are as follows:

1. Denationalization: It means transferring of ownership of a public enterprise to the private sector or the return of a state owned corporation or industry to free enterprise.³⁵ Some other terms have also been used in denationalization, such as:
 - i. Allotment of share for small applicant.
 - ii. Rationing - Allotments were characterised by some kind of rationing (e.g. in case of BAA P/C, those who applied for up to

1,000 shares were allotted 100 shares and those who applied for more were to receive nothing.³⁶

- iii. Limits were placed on individual share holdings (e.g. not more than 15 per cent of the voting shares).³⁷
- iv. Management buy-out technique was followed in a few cases, such as National Freight Corporation.³⁸
- v. Free share : Shares are offered to the employees or pensioners of the enterprises at government expenses.
- vi. Matching shares: It is similar to free share usually placed in a trusteeship scheme.
- vii. Special share : Here government retains some shares by which it preserves veto power in case of sudden disposal of any property of the enterprises or disclosure of the enterprises. But it does not have right to interfere to the management affairs. Government holds a special share of some enterprises, such as - Amersham International P/C, BAA P/C, British Aerospace P/C, British telecommunication P/C etc.³⁹

2. **Deregulation:** It means the flexibility of government controlling over the enterprise. This has been pursued in certain sectors which bring the competition. The government deregulated long distance coach services, increase competition on air routes within the U.K. and between certain European countries.⁴⁰

However, different techniques of public sale may be inferred from the privatization measures in Britain, such as:

- i. Offer a sale at fixed price, as Associated British Ports holding P/C's first issues in 1983, British Telecommunications P/C in 1984 and British Gas P/C in 1986.⁴¹
- ii. Sale by tender, with the minimum price fixed as Associated British Ports holdings P/C's second issue in 1984, British petroleum company P/C and Enterprise oil P/C in 1984.⁴²
- iii. Public Sales have been underwritten.⁴³
- iv. In certain cases, the sale of a part or a whole of the firm was offered to a single bidder. In the case of National Freight Company and Red Head Ship repair yard, the entire firms were sold to its workers. In the case of cross channel Hovercraft

service, the enterprise was handed over (rather than sold) to its employees.⁴⁴

- v. There was a ceiling on foreign participation in equity holdings like 15 per cent.⁴⁵

Finally the U.K. government had taken a wide spread information campaign and sale of shares for getting support of general public in favour of privatization programme.

Outcome of Privatization:

The outcome of the British Privatization programme is fruitful and it has become a mile-stone in the history of privatization in the world. 'About two-third of the State Owned Enterprises (SOEs) have been transferred to the private sector and the proportion of individual citizens holding shares directly has risen from 1 in 14 to 1 in 4.'⁴⁶ In 1979, the small group of individual share holders were 7 per cent of the British population which became more than 25 per cent in 1991.⁴⁷

It has been observed from the foregoing discussion that the employees of the State Owned Enterprises (SOEs) responded earnestly to the offer of shares, i.e. at British Aerospace, 89 per cent, at Associate British ports, 90 per cent, at British Telecommunication, 96 per cent and Both Amersham and Cable and Wireless 99 per cent.⁴⁸

Some of the plus points as regards the successfulness of privatization programme in U.K. are adumbrated as follows:

1. **Productivity And Efficiency:** Productivity and efficiency go hand in hand. Productivity will not raise without increasing efficiency in performing the works. So, efficiency ensures more productivity and productivity ensures more profits. 'At British air ways and British Gas, Productivity of per employee rose by 20 per cent.'⁴⁹ 'In British Telecommunication overall call failure has dropped from 1 in 25 to 1 in 20.'⁵⁰
2. **Service To The Customer:** Private Enterprises take care of their customers. They try to retain customers goodwill because they have to survive with customers. So, they respond to the customer's need and thus 'customers get the best possible value of money.'⁵¹
3. **Labour Relations:** When employees come to know that they are the owner of the enterprise, they try to work sincerely to gain more profits. So, there is no industrial disorder in privatization. 'At Associated British Ports, labour unrest was daily matter which disappeared after privatization of the enterprise.'⁵²

4. **Government Budgets:** Through Privatization Programme, a reduction in pressure on the public budget could be ensured. U.K. privatization is the glaring example of this.

To sum up, it may be said that British privatization is a successful one and an ideal symbol for other countries of the world. Since it has an established capital market, well learned citizens, well coordinated planning for privatization and at the sametime sophisticated publicity campaign, which cumulatively contributed towards the successful implementation of the privatization programme.

B) Privatization In United States of America (U.S.A.)

America is an individual country where the concept of privatization has been adopted in different way, forms and models. Indeed, the U.S.A. adopted the move of privatization on account of deregulation policy of the government in the following spheres of public activities :-

1. Contracting out public services to the private sector.
2. Letting out on the basis of contracting the various significant services to the private sector. The services include-urban services, collection of garbage, disposal of wastage, electricity and public transport.
3. Health and human services i.e. hospitals etc. largely belong to the private sectors.

However, in America, the privatization in other forms are not very significant, since its manufacturing sectors are already operating with optimum profitability and enhanced efficiency.

C) Privatization In France:

The wind of privatization touched France also. After election in 1986, Privatization was launched by the then Prime Minister Jacques Chirac and it continued for two years. Though it was a little attempt, however, 'a considerable amount of equity transfer had been accomplished in a short period of time.'³³

Objectives of Privatizations:

Privatization programme in France had been adopted in order to achieve the following objectives:

- i. To improve the economic and financial performance of State Owned Enterprises.³⁴

- ii. To develop financial markets to expand popular share holding.⁵⁵
- iii. To relieve the state treasury from the burden of chronic deficits accumulated by certain State Owned Enterprises (SOEs)⁵⁶; and
- iv. To reduce the involvement of the state or public sector in economic activity.⁵⁷

Successfulness of the Programme: The successfulness of the French privatization programme can be enumerated as under:

1. Reduced Budget Deficit:

The programme helped the government to reduce indebtedness. As a result of privatization, 'the budget deficit fell from 3.3 per cent of GDP in 1985 to 2.3 per cent in 1987'.⁵⁸

2. Increased Ownership:

Privatization programme has substantially increased the number of shareholders amongst the general public. 'There were over 8 million shareholders in 1987, which represented a multiple of four in just one decade and over one out of eight persons owning private stock'.⁵⁹

3. Increased Importance Of Paris:

By dint of successful privatization programme, the importance of Paris increased in the international financial markets. 'In France Privatization represented a 30 per cent increase in the capitalisation of the Paris stock market over only a two year period'.⁶⁰ It has been gained through financial deregulation and removal of capital controls.

In France, though privatization programme was held in a shorter period of time, it was a successful campaign because it was well accepted by the people as well as well-absorbed by the financial markets.

D) Canada

Crown Corporation of Canada is a central government corporation which includes railways, airlines, post office, cultural institutions and Agricultural Marketing Board. It used to receive 'a total of about \$ 8 billion annually in government support and employed more than 250,000 Canadians'.⁶¹ In 1987, Canadian government owned 54 parent crown corporations with 114 subsidiaries and 183000 employees and assets were valued at about Canadian \$ 60 billion.⁶² The privatization effort in Canada began in 1984 and gained momentum in 1985 after issuing budget.

Objectives/Goals of Privatization:

There were three goals of privatization:⁶³

1. To manage crown owned assets more efficiently.
2. To make markets more competitive and fair, and
3. To offer new opportunities for Canadians to share in the growth of these companies.

Administrative And Institutional Arrangements For Privatization:

To gear up the privatization process, the following administrative and institutional arrangement have been followed.

1. In August 1986, A Cabinet Committee on Privatization, Regulatory. Affairs and Operations (CCPRAO) was formed by the Prime Minister.
2. In December 1986, an Office of Privatization and Regulatory Affairs (OPRA) was set up to provide essential support for the privatization effort.
3. Privatization procedures were entertained also covering all aspects of privatization in the same year.

The government decided to create a separate Ministry of privatization to make this effort a more centralised approach.

Instruments And Mechanism of Privatization:

Two main mechanisms have been followed in Canadian privatization process⁶⁴ such as:

- i. Sale of shares/assets by the government to a single buyer;
- ii. Sale of shares to the public and in some cases, partial sales to employees.

There were other instruments also ⁶⁵ like -

- a. Bonus shares to residents,
- b. Issues of shares in installments to increase marketability,
- c. Schemes to allow particular groups the opportunity to gain control of specific corporations.

About 11 major federal government SOEs have been privatized since 1985. About nine have involved single buyers, while two have relied on sales of shares to the public and/or employees. ' Of the total sales value of about

of shares to the public and/or employees. ' Of the total sales value of about \$ 2 billion for these 11 enterprises, single buyers have been involved in purchases worth about \$1.5 billion, public share buyers about \$ 0.5 billions. ⁶⁶

Procedure Adopted for Privatization:

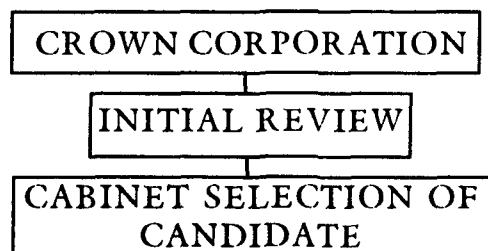
The procedures adopted for privatization in Canada consist mainly the following four stages:

- i. **Initial Review And Selection Of Targetted Corporations:** The main function of this stage is to apply criteria for determining the privatization potential of crown corporations, i.e. role in support of national and regional policy objectives, potential for commercial viability, company readiness for privatization, appropriateness with other policies and effect on interested parties.
- ii. **In-depth Review:** When a company is selected be privatized, an indepth review is undertaken in order to examine all the issues associated with the privatization of each enterprise. After completioin of the analysis, recommendations are made and presented by the Minister to the cabinet for discussion and approval.
- iii. **Preparation For Sale:** After taking approval of the cabinet, the essential legal, financial and legislative steps are taken. These include valuation of the company, announcement of a sale, tabling of a bill in Parliament and the selection of the winning bid or the issuance of public share.
- iv. **Post Sale Monitoring:** After the sale, the government monitors the performance and success of the enterprises,

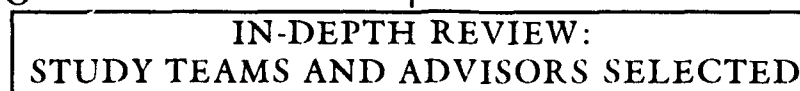
The procedure is shown in chart (1)

How Privatization Works

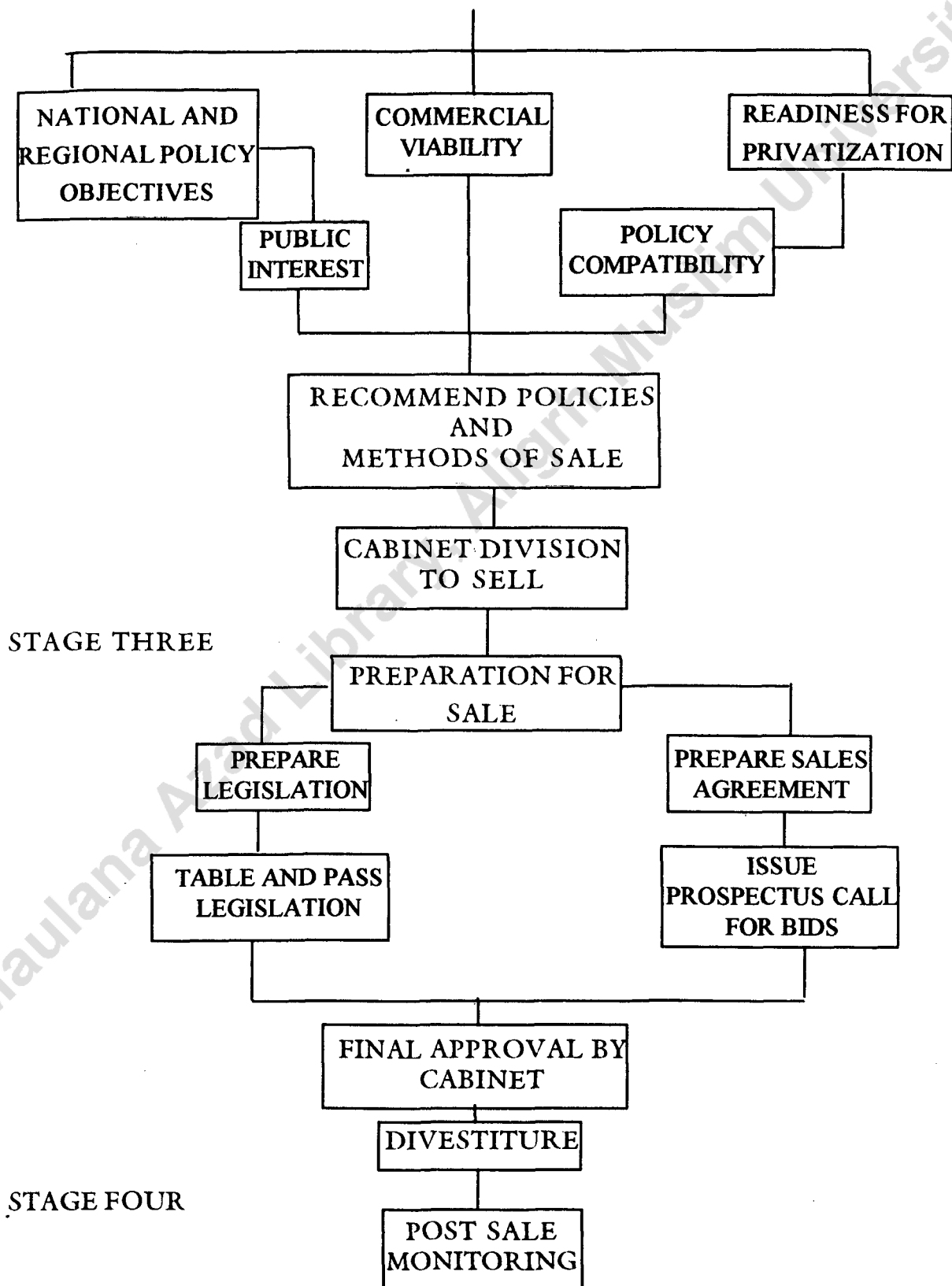
STAGE ONE



STAGE TWO



Contd.....



SOURCE: Office of the Minister of State (Privatization and the Minister responsible for regulatory affairs in Nankani Helen, "Techniques of Privatization of State Owned Enterprises, volume II, The World Bank, 1989, P. 4.

Some Observations On Canadian Privatization:

The following observations emerged from the Canadian (federal Government) experience:

1. The setting up of CCPRAO was more structured process to moderate privatization approach.
2. It is clear from the experience that people are more conscious about the sale of state enterprises to foreigners, specially American owners.
3. Canada began its privatizations with the companies that were running with weak performance'.

It may be observed from the above discussions that Canadian privatization process was systematic and well structured. The process was well documented also.

E. Italy

Italy has a largest number of public sectors. 'It accounted for 15 per cent of GDP and about 25 per cent of value added in the early 1980s, as well as 70 per cent of Banking and 60 per cent of steel production.'⁶⁷ Commercial Banks used to invest in the industrial sector in Italy.

After the 2nd world war they took over a number of major companies, hence a large proportion of their capital was tied up in equity and they became sick. In 1933, IRI (Institute for Industrial Reconstruction) was set up to rescue the banks from sickness. In 1937, IRI was turned into a permanent body to take care of these enterprises. It is said that 'IRI took this opportunity to turn its business into a model of entrepreneurship as an example to the private sector'.⁶⁸

Untill the early 1960s, the performance of State Owned Enterprises (SOEs) was positive. SOEs capacity for self financing was 'quite high about 50.2 per cent in 1956 and 47.5 per cent in 1961'.⁶⁹ Towards the latter half of the 1960s, the performance of the Public enterprises sector began to deteriorate due to many causes and it became a continuous trend of losses. In 1978, the losses reached a high of 1,407 billion lire (US \$ 2.7 billion).⁷⁰ In 1979, a Mediobanca survey showed that 'the debt/equity ratio for state controlled companies was 13.2 as compared to 3.5 for the private sector'.⁷¹ Between 1978-81, 'the public sector's aggregate losses amounted to about 6 per cent of GDP'.⁷² As a result of mounting losses of SOEs, the government has taken some steps for improving the financial condition of enterprises, such as i) Substantial recapitalization ii) Debt restructuring and (iii)

Divestiture.

F. Spain

Spain does not have a large public enterprise sector. Its public enterprises are organised under three major state holdings, i.e. the Institute National de Industrial or National Institute of Industry (INI), the Institute National de Hicrocarbures or National Institute of Hydrocarbons (INH), and A conglomerate with a state monopoly in the Tobacco and Telephone subsectors (Patrimoine). These three holdings account for 90 per cent of all public enterprises. 'INI and INH represent 55 per cent of the public enterprise sector, while Patrimonio has 34 per cent (not including Rumasa Group) and the other 11 per cent is represented by Public Radio and Television, national railways and minor state commercial services'.⁷³

The performance of the public sector has been disappointing. A study showed that 'by 1983, total accumulated losses for the public enterprise sector were US \$ 30 billion, with those of INI alone equal to US \$ 2.8 billion and in 1985, INI companies lost US \$ 1.3 billion'.⁷⁴

The privatization effort in Spain was initiated on the expropriated Rumasa Group and on INI enterprises. The INH group has not yet developed a privatization programme, rather it has plans to sell equity in its companies in the stock market.

The Rumasa Group :

Rumasa Group was set up as a private company in 1961 with an initial investment of about US \$ 5000. After 2 years it became a holding company with about 800 companies employing 45000 people. In February, 1983, it was expropriated by the government and placed under the management of Patrimonio, reprivatization took place from 1984-1986.

Institutional and Administrative Arrangements:

To reprivatize the Rumasa group, some steps had been taken by the government, such as, first, the number of entities belonging to or associated with the group had to be identified. Second, the Rumasa reprivatization unit was established with a view to take care of the divestiture effort as well as to make the procedure transparent. Third, an action programme was set up for the sale of the enterprises, such as, the financing of privatization, valuation of companies prior to sell, analysis of labour related issues and identification of potential investors.

G. New Zealand:

The poor performance of SOEs incurred a heavy losses and drained down state resources, as a result, the government of Newzealand was compelled to adopt

privatization programme in 1987. The government started 'corporatizing' its SOEs by adopting reforms that made these companies legal entities with clear objectives, operational autonomy and accountability.⁷⁵

This initiative of Corporatization brought out good result. Before Corporatizing, New Zealand postal service was not economically viable. But in the first year after corporatization, New Zealand post generated an after tax profit of \$ 72.1 million, and it has been operating profitably ever since.⁷⁶ Similarly, in just one year the Electricity Corporation cut the real cost of electricity production by 11 per cent and increased power generation per employee by 19 per cent'.⁷⁷

H. Japan

The largest SOEs of Japan were incurring heavy financial deficits because of centralised decision making process, bad labour-management relations, the size of the enterprises i.e. as big as it was beyond the capability of managing well. Oil crisis occurred two times. However, the government attempted for reform of these enterprises. Consequently, the Adhoc Commission on Administration Reform was formed. Examining the condition of all the largest SOEs (JNR, NTT, TOBACCO), the Commission recommended some steps for taking reform programme.

Before Privatization, the JNR incurred an annual deficit of y2 trillion. After privatizing it shifted from JNR to JR which generated profits amounting to 148 billion during fiscal year 1990.⁷⁸ The JNR was transformed into six JR firms for passengers and one JR firm for Cargo. The JR not only made profits, it solved many problems also.

The NTT, Tobacco have also been privatized in the same way. The Privatization programme of Japan has been successful because the business leaders, workers as well as management, government administration were in same line and were committed for achieving wellbeing of the entire nation.

II. Privatization In Erstwhile Socialist Countries:

A) Hungary

Hungarian State-Owned Enterprises were characterised by wasteful production, over employment and poor quality of marketing and management. They have been also suffering from high internal and external debts. So, the major objective of privatization in this country was to use the proceeds from sale of these enterprises to reduce the country's foreign and domestic debt.⁷⁹

Methods of Privatization:

Different ways have been adopted in privatizing SOEs in Hungary which are as follows :

1. **Small Privatization:** A special law of 1990 regulates privatization of shops, restaurants and other service sector activities. Sale of small units was carried out through public auction and more than 700 retail shops and small enterprises were sold by the end of 1991.⁸⁰
2. **Spontaneous Privatization:** In this system two forms have been used as-sale of the enterprises assets and sale of its shares. In case of sale of shares, the enterprise must first be transformed into a corporation. By the end of 1991, 104 enterprises had been transformed according to this method, 53 joint ventures with foreign partners and 54 joint ventures with domestic partners had been established and 128 companies had been sold through sale of shares.⁸¹
3. **Active Privatization:** The SPA may initiate privatization of a company. This was an attempt to attract investors who were not linked with Hungarian Companies. In 1991 three extensive programmes and two sectoral programmes of active privatization were taken including about 124 large enterprises.
4. **The first Privatization Programmes:** About 20 large and well performing enterprises were slated for privatization programme through tenders.
5. **The second privatization Programmes:** The aim of this programme was to analyse, from organizational, financial and legal aspects, the performance of the holding company. Analyses were continued in 12 companies, some of them were liquidated and others were being prepared for privatization.
6. **Sectoral Privatization Programme:** With a view to accelerate the privatization programme as well as to reduce the consultancy costs this programme has been adopted, specially in agriculture and wine production which in all included 15 companies.
7. **Investor-led Privatization:** In this programme, the SPA introduced at the beginning of 1991 a special privatization method allowing investors to initiate the process.
8. **Self Privatization:** Under this method, the SPA has granted licenses to 80 consultancy organizations that will have the right to prepare and implement privatization programme for individual companies on behalf of the SPA.
9. **Employee Share Ownership:** Before turning into market economy, the employees and managers played an important role in the decision making process. So, in the privatization process, government passed the regulation for employee buy-out. In most cases, 'employees have the right to buy up to 10 per cent of the value of the company on favourable terms: guideline adopted by the Parliament concerning privatization to allow insiders to

purchase up to 50 per cent of all the shares on favourable terms.⁸²

(B) Poland:

Privatization in Poland was launched as early as 1980s. The law was accordingly introduced regarding state enterprises that attempted to decentralise decision making and to increase autonomy. Two laws were introduced for regulating the privatization of companies, i.e. law on Managing State Enterprises and the Law on privatization of State Enterprises. The law particularly defines the managers and workers council's rights in the management of enterprises. There is now a separate Ministry of Privatization which formulates and implements the strategy of privatization.

By the end of 1991 around 8000 shops had been sold in small privatization. More than ten large enterprises were sold through public offerings. But Poland did not succeed in the area of selling enterprises to the foreign strategic investors. In 1991, there were around 670 cases of management buy-outs and 1000 similar transactions were planned for 1992.

With the aim of speeding up privatization process, the Polish government has decided to introduce mass privatization programme that would include free distribution of shares to the people. According to Polish government, mass privatization should be carried out in the following stages.⁸³

- i. At the first stage, the government would establish up to 25 Mutual Funds which would be controlled by Polish Supervisory Boards and managed by International Banks and Private Management Companies.
- ii. At the second stage, the government would distribute special certificates to each adult citizen, one for each newly created Mutual Fund.
3. At the third stage, the government would distribute shares in selected State Owned Enterprises (SOEs) among the Mutual Funds - 33 per cent to the leading Mutual Fund and 27 per cent among other funds, 10 per cent of the shares would be distributed to the workers and 30 per cent would remain in the hands of the government which would later either find a strategic investors or transfer these shares to pension funds.

In order to minimise the consultancy costs from foreign consultants, 'Sectoral Programmes of Privatization' has also been chalked out and 35 sectors with around 500 enterprises are to be included under this programme.

(C) Czech and Slovak Federation:

The main objective of the Czech and Slovak privatization programme is to increase efficiency of companies and reduce subsidies as well as to bring change in the socio-economic system. Various methods of privatization have been followed but special emphasis has been given on voucher privatization. About 90 per cent of companies have been decided to be sold through this method.

Several laws have been introduced for this programme of privatization viz the law on small denationalization, followed by the law on small privatization and the law on denationalization of large enterprises linked to the law on privatization of large enterprises. A large number of Committees were set up with full powers to carry out the process. Not only the Ministry of Finance was given responsibility of implementing the programme successfully but special Ministries for privatization have also been created for the implementation of the privatization programme.

Three basic methods of privatization adopted in this country are as follows:-

1. Restitution of nationalised property.
2. Sale of companies to domestic and foreign investors through different privatization methods, and
3. Voucher privatization, where property is given for symbolic value to those citizens who have decided to take part in the programme.

D. Germany:

The main objective of the privatization programme adopted in Germany is to integrate a developed market economy rather than transformation of socialist economy into market economy.

There is no special privatization law in Germany. The institution has been established 'Treuhandanstalt' which manages and sells the property in accordance with the rules applicable to any owner. It is a unique institution and a state agency for privatization. It has more than 3000 experts. It is responsible for speeding up privatization and reorganization of its companies.

The 'Treuhandanstalt' is organised as a joint stock company. It has an executive board of directors and a steering committee composed of representatives of various Ministries, Trade unions and experienced businessmen. It has several directorates covering individual industries and they are empowered to assume a sectoral programme of privatization.

Various methods of privatization which have been followed in this country are: commercialization, sale of companies, restoration etc.

- i. **Commercialization of Companies:** Commercialization is the first step toward privatization in Germany. The Main component of commercialization is to ensure sufficient capital structure in these companies which are to be restructured.
- /ii. **The Treuhandanstalt's privatization policy:** The main policy of this institution regarding privatization is to try to sell the company as a whole, not a part of the company as well as to avoid privatization by allowing private equity into state owned companies which leads to joint ventures between the public and the private sectors. In order to attract foreign investors, this institution participates in various trade fairs. Sometimes, it sells company at the least prices for the sake of negotiations that the owners must ensure the successful operation of the company in future, For this, new buyers must also be contractually bound to fulfill their promises of future investment and job creation. The institution also follows management buy-out technique in the area of small and medium enterprises. 800 companies under this programme were sold.

E. Laos:

Laos is a centrally planned economy. The major portion of the enterprises in this country are run by the government. Reform of SOEs was started in 1988 onward by increasing autonomy of the SOEs and privatizing selected enterprises with a view to increasing financial solvency and performance. As of the end of 1988, '400 SOEs had been granted such autonomy.'⁸⁴ In this regard, 'Decree No. 19, has greatly expanded the operational planning and budgeting, procurement, personnel and financial management.'⁸⁵

Privatization programme in 1989 was adopted separately and for limited areas. This programme had applied only to industrial and commercial concerns. The main procedure was labelled "disengagement" which consisted of variety of forms, like- the contracting out, leasing, allowing private investment in the public firms, partial or full sales; closures and liquidations, sub contracts of certain activities to foreign firms. 'A 1989 decree clarified the rights of foreign investors to enter the Laotian market'.⁸⁶

F. Mozambique:

In Mozambique, the government introduced the 'Economic Rehabilitation Programme' in 1987 on account of disappointing performance of SOEs from the mid 1980s onward. The aim of this programme purported mainly to increase enterprise autonomy, accountability and simplified access to foreign exchange allocation and at the same time, to increase financial strength and reduce budgetary support. Recently the government has set up enterprise 'Restructuring Technical Unit in the Ministry of Finance which is accountable for reviewing rehabilitation

and restructuring plans submitted by the enterprises. The investment law has also been brought out to encourage competition from both foreign and domestic sources.

Different methods of privatization followed in this country include sales, partial sales, joint venture etc. Several liquidations were planned, but none took place at all. In the period of 1986-88, '25 full sales and 20 partial sales were reportedly transacted'.⁸⁷ Privatization in this country has taken place on a case-by-case basis involving small and medium sized commercial and industrial firms. Foreign investors have also been encouraged to come in on a joint venture basis. It has been decided that "upto 75 per cent of SOEs can be sold to a foreigner and 100 per cent to a domestic purchaser."⁸⁸

G. Croatia:

Croatia after having won independence from Yugoslavia, has made its own law on privatization and its privatization efforts have made the greatest progress. Two laws have been made in Croatia. The first law is not so specific for privatization but the second law is more specific for privatization. In accordance with the second law, two institutions have been made in all the republics on their territories for assisting the privatization process. The first institution is an 'agency' for restructuring and recapitalization, to oversee the privatization process. The second is a "fund for development which is meant to receive the funds generated through privatization."⁸⁹

Four methods of privatization have been followed in Croatia, such as

- i. Sale of the whole enterprise or part of it.
- ii. By making an additional investment in the enterprise and corresponding participation in the share capital of the enterprises.
- iii. Transformation of assets already invested into share capital or existing claims into capital participation,.
- iv. Through transfer of ownership to the Croatian fund and to other funds without compensation.

Whatever the methods or types of privatization selected, the enterprises will be transformed either into joint stock companies or into companies with limited liability.⁹⁰

Russia

Russia was the pioneer of creating public enterprises and state control system. They believed in command economy instead of market economy. Unfortunately, the public enterprises phenomenon began to change due to nagging performance of public enterprises and Russia embarked upon reform programme by disintegrating itself in 1989. The privatization effort began in 1991 which gained impetus in 1993. The privatization was the most popular reform of the Russian government. Most of the people i.e. more than 60 per cent of the Russian people supported privatization.

The Russian privatization programme may be divided into some steps, such as, firstly: small firms, shops were sold by cash and vouchers.

Secondly : the programme delineated large firms into those subject to mandatory privatization which included firms in light industries, including textiles, food processing and furniture.

Thirdly: all large and medium sized firms were to be corporatized i.e. they were transformed into joint stock companies. In corporatized firms, managers and workers had three options to pick:

The first option gave workers 25 per cent of the shares of the enterprise for free. An additional 5 per cent of shares could be obtained by managers and workers at low prices through the Employee Stock Ownership Plan (ESOP).

Second option gave managers and workers together 51 per cent of the equity at nominal price.

Third options allowed the managers to buy upto 40 per cent of the shares at very low prices.

By July 1, 1993, out of 1972 large enterprises slated for mandatory privatization, 2918 enterprises were decided to be privatized by GKI (State Committee on the Management of State Property).⁹¹

III. Privatization in ASEAN Countries:

(A) Indonesia:

After independence in 1945, the government took over all the corporations through nationalization. But the State-Enterprises were claimed with inefficiency and mismanagement. The government attempted to liberalise the policy and to reduce the government's control over the public enterprise sometimes. But it was hindered on account of many reasons.

Institutional Arrangements:

There was no strong institutional arrangements, however, in 1987 a committee was set up by the president Suharto, which included the Economic Minister, the National Development planning Minister and the Finance Minister to study plans regarding selling the public enterprises. The committee instructed to chalkout the method of divestiture.

Methods of Privatization:

The committee suggested many ways of privatization, viz, Deregulation, sale of shares, Mergers, joint ventures with private sector, liquidation etc. It was decided to attract and encourage foreign investors also.⁹²

First Suharto government (1967), took the policy to encourage foreign investments and at the same time some nationalised industries were also returned to the previous owners. According to the recommendation of the Centre for Strategic and International Studies (CSIS), the government took active programme of privatization during the period of 1982-86 in expectation of generating funds needed for the country's development. As a part of the privatization programme, the government began to deregulate the financial sector and planned to privatize the Jakarta Stock Exchange in the early 1990.

However, Indonesia also faced some problems in implementing the privatization programme, such as

- i. Obstacles from opposite political parties.
- ii. Lack of an active viable capital market.
- iii. A more important obstacle to find potential buyers, the lack of investor's confidence in the capital market as well as the lack of understanding of the operations and possible profits.

B. Philippines

There was a large number of State Enterprises in Philippines in the 1970s and the early 80s. They did not however perform well incurring heavy losses. According to one significant study it was disclosed that by profitability and productivity measures the public enterprise sector is generally inefficient.⁹³ So, president Aquino has adopted a 5-year campaign to sell some enterprises of US \$32.5 billion.

The Institutional Arrangements:

In 1986, President Aquino formed a cabinet level policy making committee on privatization (COP) and policy implementing arm "The Asset Privatization Trust" (APT), headed by the Finance Minister to oversee the divestment of state assets. The methods of privatization adopted were sale of assets, and divestiture.

Problems Of Privatization:

There were many problems in implementing the privatization schemes, such as-

- i. There was no interested investors to whom assets could be sold.
- ii. There was a technical problem regarding valuation and audit, the legal preparation of the assets for sale etc.
- iii. 'If the government stepped into to evaluate the properties or to veto any particular sale, it would inevitably be drawn into conflicts among potential buyers, raising other political objections and risking the programmes credibility among investors.'⁹⁴
- iv. There was a conflict of which private sector groups would be allowed to gain access to the companies and on what terms. The most contentious questions surrounded competing domestic claims, particularly from previous owners. There was a strong sentiment that 'Marcos cronies and their fronts should not be allowed to purchase companies being privatized.'⁹⁵
- v. Another problem was relating to finance. The domestic capital market was not able to provide sufficient funds for purchase of assets.

C. Thailand:

In Thailand, Public enterprises have played a dominant role in the economic development. The objective of public enterprises is to achieve commercial as well as social benefits. But as ill luck would have it, achieving this objective is often hindered owing to inefficiency, mismanagement etc. Before the oil crisis of 1973, the public enterprises were not draining down the government exchequer rather they were contributing revenues in favour of the government treasury. As a result of oil crisis, operating costs increased, specially in the fuel consisting industries. So, they had to depend on debt financing. In 1986, the government reviewed the performance of all the loss making public enterprises in order to attempt the privatization programme.

For privatization programme in Thailand, no specific institutional

arrangement was made, however, the government set up a National Public Enterprises Committee' with a view to improving the efficiency of the public enterprise. 'The government also declared that inefficient public enterprises would be liquidated and it was recommended that to increase efficiency, existing enterprises should be undertaken under privatization schemes like management contracting, leasing or liquidating loss making units.⁹⁶

(D) Singapore

Since independence, (1965), Singapore has gained all-around success as a result of efficient public enterprise system. But in the mid 1980s, the performance of the Singapore economy slowed down. For this, a special high level Economic Committee was formed to examine the long term problems and to define new strategy for promoting growth, so, 'it was decided that Singapore has always been a free enterprises economy, the private sector should continue to play the leading role.'⁹⁷

On the basis of the recommendation of the Economic Committee, a 'Special Public sector Divestment Committee' was formed to identify opportunities for strengthening the local stock market, to identify government linked companies, to chalkout a programme with appropriate timing etc.

Malaysia:

In 1983, the Prime Minister Mahathir announced the government's privatization policy. In accordance with those guide lines the objectives of privatization in Malaysia are summarised as follows⁹⁸:

1. To relieve the financial and administrative burden of the government with respect to public enterprises.
2. To promote competition, improve efficiency and increase the productivity of these enterprises.
3. To stimulate private entrepreneurship and investment in order to accelerate the rate of growth of the economy.
4. To assist in the reduction of the size of the public sector and its monopolistic and bureaucratic tendencies and
5. To contribute toward the objectives of the New Industrial policy (NIP), with particular attention on the role of Bumiputera (indigenous, mostly Malay) entrepreneurship.

After issuing the guidelines on privatization, the government established an

institutional machinery for privatization, named " the Privatization Committee under the chairmanship of the Director General of the Economic Planning Unit (EPU). It has overall responsibility for planning, monitoring, coordinating and evaluating the privatization programme. In addition to the main committee, there is a privatization secretariate under the Director of the Privatization Task Force. The Secretariate basically works as the organizational hand of the main committee. The four additional technical committees were also set up to conduct privatization studies. After completing analysis of the background reports by the technical committees, interested private sector members are invited to present this case, recommendations are sent to the main committee for analysis and detailed negotiations. Finally, the Cabinet has to give its stamp of approval.

Techniques Of Privatization:

The techniques of privatization followed in Malaysia are as follows:⁹⁹

1. **Sale of Shares or partial privatization:** In this form, the government retains a portion of the ownership of the enterprise. Joint ownership covers cases where the ownership of the share capital is on a 50:50 (Per cent) basis.
2. **Selective Privatization:** An agency responsible for certain services or interest may sell or lease or a part of its services while retaining the remaining services under public ownership, control and management.
3. **Management Privatization:** The management expertise and know-how of the private sector has been invited through a management agreement.
4. **Contract Privatization:** There is private-sector involvement in the provision of certain services or activities, but there is no change in the organisational set up of the government agency responsible for the services.
5. **Leasing Privatization:** For financial or other reasons, leasing should be considered by the parties involved but the responsible agency will have to evaluate the cost and benefits of leasing and to indicate whether it will be permanent feature or only a phase in its privatization plan.

IV. Privatization in SAARC Countries:

The South Asia Association of Regional Co-operation (SAARC) consisting of seven countries viz. Bangladesh, India, Srilanka, Nepal, Pakistan, Bhuttan and Maldives, have also been driven towards privatization in order to adopt with the changing economic environment the world over. The privatization programmes of these countries have been discussed in the succeeding paragraphs.

In Pakistan, the government played a vital role to its industrial sector since

independence in 1947. The Pakistan Industrial Development Corporation was established in 1950 with a view to accelerating the private sector and at the same time, Pakistan Industrial Credit and Investment Corporation and Industrial Development Bank of Pakistan were also established. So, enormous wealth had been accumulated and got concentrated in a few hands, so much so that 22 families or industrial groups controlled 66 per cent of the national wealth and 80 per cent of the financial assets'.¹⁰⁰ This trend changed during Z.A. Bhutto regime, 'with the promulgation of the Economic Reforms Order of 1972, through which 33 indigenously owned industrial units, all local banks, 32 life insurance companies, shipping companies, 26 vegetable oil factories, petroleum making companies and over 2000 cotton gining and rice husking mills were nationalised'.¹⁰¹ But this trend of nationalization was stopped by General Zia-ul-Haq in 1977 and the very process of privatization was started by returning a few industries to their original owners, like,, cotton ginning and rice husking mills, Ittefaq foundries, Nowshera Engineering etc. During this martial law regime, Privatization movement however did not get speed, 'only 4 industrial units were privatized'.¹⁰² From this period onward, the privatization process has been continuing till date by the successive governments.

At the end of Zia regime, Benazir Bhutto came into power in 1988 and introduced the privatization programme vigorously. To gear up this programme, a foreign consultant M/S Rotheild was hired to identify units for privatization. 'Benazir Bhutto announced that some key industries would be privatized though only 49 per cent of their shares would be sold'.¹⁰³ However her government had time only to sell 10 per cent of P.I.A. shares, but could not follow up its programme.¹⁰⁴

Nawaz Sharif came into power in December, 1990 and took the privatization policy vigorously to attract more foreign investment and stem flight of capital. This government thus declared to privatize 100 State Owned Enterprises (SOEs) within a year. This programme was partially successful.

In 1991 a privatization commission (PC) was formed consisting of four full-time and four part-time members assigned by a secretariate. A Cabinet Committee On Privatization (CCOP) was created to ensure governmental approval for proposals brought forth by the PC, and a high powered Inter-Ministerial Committee was also authorised to negotiate a settlement with labour to facilitate the process of privatization.

The methodology for implementation of privatization programme included the following:¹⁰⁵

- i. Wide spread ownership, special treatment for management and employees.
- ii. Total transparency in the process of sale and transfer.
- iii. Public awareness and support.

- iv. Thoroughness in preparation, utilising the services of outside consultants.

About 65 units were sold and transferred by PC in less than two years. Among them seven units were sold to the employees, Five were bought out by foreign investors, ten were bought by well established large groups and five by old owners and the remaining thirty seven units were new investors.¹⁰⁶

Srilanka has a large number of State Owned Enterprises (SOEs) that account for 'about 40 per cent of the gross output in manufacturing, 38 per cent of manufacturing value added and over 40 per cent of employment in manufacturing.'¹⁰⁷ But the performance of this larger sector in terms of productivity and efficiency has been total disappointment. So, the government was forced to adopt the policy of privatization in 1977.

In 1980, 'a Committee on Public Enterprises (COPE) was appointed consisting of 10 members from Parliament and finance Ministry.'¹⁰⁸ Two bills were prepared in regard to conversion of public corporation in joint stock companies by the Public Enterprises Division of the treasury with the help from COPE which were enacted on May 15, 1987, and in the same year 'The Presidential Commission on Privatization' was also formed.

Three types of techniques were adopted for privatization.¹⁰⁹ viz (i) complete or partial transfer of ownership; (ii) Joint ventures and (iii) Management contracts.

In spite of taking all possible measures for privatization, there were some problems also, such as The Institutional framework was not clear and sufficient, eligibility of investors was not clear; there was no policy at all on Foreign Direct Investment; Under valuation of shares; Labour unrest; the programme was not speedy etc.

The **Government of Nepal** announced its privatization policy in 1991¹¹⁰ with a view to upgrading a dynamic economy by creating a healthy private sector. The primary objectives of privatization policy in Nepal are as follows:¹¹¹

- i. To relieve the financial and administrative burden of the government and to release funds for better alternative uses.
- ii. To improve efficiency and productivity.
- iii. To facilitate economic growth, and
- iv. To reduce the size and presence of the public sector in the economy.

Following these objectives, the government of Nepal tried to go in for privatization phase wise. In the first phase, three public enterprises have been privatized, in the second phase out of 32 public enterprises identified for privatization, 14 enterprises were undertaken for privatization. In the third phase, 18 enterprises have been reported to be privatized started from February, 1994. The entire phase of the above privatization is expected to be completed by July, 1986.¹¹²

Bhutan and Maldives have not yet advanced towards the massive programme of privatization like other member countries of the SAARC. However, the case of privatization in Road transport, Recreation facilities, Fish and Food processing are bright in these countries.¹¹³

In India, with the announcement of the New Economic Policy on July, 24, 1991 and the subsequent successive four budget proposals, the wind of privatization has started blowing vigorously. In India, the move of privatization was primarily mooted to raise resources to fill up the budgetary deficit, to encourage wider public participation and to promote greater accountability.

The technique adopted for privatizing public sector enterprises in India is partial disinvestment of shares. It was therefore, in consonance with this policy, up to 20 per cent of the government equity in selected public enterprises was contemplated to be offered to Mutual Funds, Financial/Investment Institutions, Workers and general public.

In first phase, the government selected 31 public sector enterprises with good track record of performance and offered a part of their equity in the range of 5 per cent to 20 per cent for sale to public sector Mutual Funds and in Financial Institutions. The total number of shares disinvested during 1991-92 constituted only 8 per cent of the government holdings in 30 public enterprises, with the total value of Rs. 3038 crores.

The second phase of disinvestment took place during 1992-93. During this period the government was able to mop up an amount of Rs. 1912 crores by disinvesting the shares of public sector enterprises. This amount constituted approximately 5 per cent of the equity holding of the 16 selected public sector enterprises.

V. Privatization In Sub-Saharan African Countries:

The reason of growing public enterprises in Sub-Saharan African countries was the same as in other countries of the world. There were about 3000 public enterprises in a variety of sectors viz. agriculture, industry, finance, banking and public utilities in Sub-Saharan African countries. But they could not attain their objectives on account of deficiencies in the decision making process, incurring losses on investment, improper planning, mismanagement, miscontrol etc. So,

reform programme of privatization was adopted in these countries also.

Togo

In 1975, the government of Togo initiated expansion of State-Owned Enterprises (SOEs). But the performance of SOEs was not satisfactory. Most SOEs had incurred a heavy losses, as a result, they became a source of drain down of money from the government exchequer. Then the government undertook steps to rationalize the SOEs. A Ministry of State Enterprises (MSE) was established in the late 1984, for monitoring the performance of SOEs. After some days of its establishment, MSE made a broad based classification of SOEs, dividing them into three main groups.

1. Enterprise which are to be retained in the Public sector.
2. Those which are to be liquidated and
3. Those are to be privatized or restructured.

'Among 72 SOEs, 8 SOEs were slated to be liquidated and 24 were to be privatized and the 18 SOEs proposed for privatization in the initial phase.¹¹⁴ However, Togo was one of the first SSA State of turn to privatization for managing the inefficient public sector. Privatization has covered various industrial units also which were 100 per cent government ownership as well as joint venture with the private sector.

Ghana

In Ghana, the state enterprise sector includes more than 340 enterprises in the mining, energy, utilities, business and financial sectors of the economy. But the performance of a large number of SOEs was so poor that they had become a threat to the economic and financial stability of the country.

Subsidies and loans to SOEs averaged some 12 per cent of total government expenditures during 1980-82.¹¹⁵ In these circumstances, the reform programme was adopted with a view to achieving objectives viz: to improve the efficiency of the economy by encouraging private sector participation; to develop a domestic capital market; to motivate the Private sector; to reduce the fiscal deficit and to raise foreign exchange.¹¹⁶

In the first phase, 32 SOEs were divested (Liquidation or privatization) and a second group of 42 public enterprises were identified for divestiture in 1988. Another 39 divestitures were completed through the first quarter of 1991. These included 22 liquidation, 12 out right sales, 2 joint venture and 3 lease arrangements.¹¹⁷

Ghanaian Privatization could not show much success as expected. Among 28 privatized enterprises, only four firms continued to operate profitably; two others were operating close to the break-even point. Nine of the remaining enterprises never resumed operations after sale, and the remaining thirteen were in difficulty because of procurement problems, limited export markets, lack of working capital, and limited access to government subsidies and commercial credit.¹¹⁸

VI. Privatization In Latin American Countries:

A. Chile

During 1970-73, the Allende government sought to convert Chile into a fully socialist economy and as a result, the number of State-Owned Enterprises (SOEs) increased. By the end of 1973, there were 600 SOEs, among these, 350 had been nationalised during the preceding three years and others were created. By 1983, SOEs accounted for 40 per cent of GDP and more than 80 per cent of mining and financial services. In 1973, the military government came into power and initiated a policy of financial and trade liberalization. 'A policy of public sector retrenchment was undertaken as part of an effort to reduce the fiscal deficit, which amounted to about 25 per cent of GDP.'¹¹⁹

In order to gear up the privatization programme, an administrative structure for privatization was set up within CORFO in the early 1970s. CORFO was considered the more effective institution to control the divestiture of all state enterprises.

(B) Mexico

In Mexico, 'government transfers and subsidies to SOEs amounted to more than 3 per cent of GDP in 1982'¹²⁰. As a result, SOEs became an unbearable burden on the budget. So, the government was compelled to chalk out privatization programme. In 1984, more than 400 SOEs have been sold or liquidated in a wide range of sectors, like, telecommunications, airlines, sugar, mining, manufacturing and services and an additional 400 SOEs have been merged or have been transferred to municipalities. '62 privatized petrochemicals and auto parts firms increased investments to as much as 75 per cent,¹²¹ adopt better financial management techniques, improve the technology, and reduce the numbers of managerial staffs.

1.7 Conclusion:

From the foregoing analysis, it may be observed that most of the countries of the world have started globalising their economy through liberalisation of their business and trades. Recently, with the signing of the Uruguay Round Trade Talks under GATT, all LDCs like Bangladesh and others have entered into a highly

competitive global market and will have to face stiff competition worldwide. So, this is the ripe time for thinking strongly about reforms through privatization and private sector development. Accordingly, the government of Bangladesh looking around the advent of market economies the world over, has taken bold steps to encourage the private sector to come forward with investment towards development of the economy and has taken a mass privatization programme in its numerous forms.

The developed economies have taken lead in privatization for economic growth and stability. Britain illustrates the point. The privatization programme has gained tremendous success in Britain in all respects like, productivity, efficiency, customer service, labour relations, reducing government budgets to the SOEs, spreading ownership among the people etc. Following Britain's achievement, other developed countries like, USA, France, Canada, Italy, Spain, Newzealand etc. also adopted a vigorous privatization programme and they succeeded too.

The socialist countries, the symbol of public enterprises in the world, also accepted the move of privatization in order to fall in line with changing phenomenon blowing throughout the world. Russia, Hungary, Poland, Czech and Slovak Federation, and other socialist countries introduced mass privatization programme. Among them Hungary, Poland and Germany were on the top embarking upon the privatization programme.

ASEAN countries have also been successful in privatizing their SOEs. They have followed different techniques of privatizing SOEs according to the nature of the project. Among the ASEAN countries, Malaysia is the mile stone for Asian Nations as the privatization in this country has been quite successful. SAARC countries are also not exception to the privatization phenomenon. However, they have not been able to achieve notable success on account of certain inherent stumbling blocks.

The privatization phenomenon did not spare the Sub-Sahara African countries too. Ghana, Togo, Nigeria, Malawi etc. have also embarked upon a mass privatization programme. Latin American Countries were the symbol of reform programme of privatization. They followed a vigorous privatization programme and were able to reduce subsidies to SOEs. Mexico and Chile were the top among the Latin American Countries to successfully adapt to the privatization movement.

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CHAPTER - II

RESEARCH DESIGN AND METHODOLOGY

This chapter outlines the statement of the problems followed by an extensive analytical review of Literature (both in global as well as in Bangladesh perspective). Logical description as regards the need for the study, scope and objectives of the study, the research hypotheses, research methodology i.e. the approach, data collection, data analysis and interpretations have also been succinctly presented along with limitations of the present study. The subject matter of this chapter has been arranged in the following order:

- 2.1 Statement Of The Problems.
- 2.2 Review Of Literature:
 - a. Introduction,
 - b. Survey Of Literature On Ideological And Conceptual Aspects Of Privatization.
 - c. Literature Available on Global Experience of Privatization.
 - d. Literature Review On Privatization In Bangladesh,
 - e. Analysis Of Major Empirical Findings Of The Review Of Literature.
- 2.3 Need For The Study.
- 2.4 Scope Of The Study.
- 2.5 Objectives Of The Study.
- 2.6 Hypotheses Of The Study.
- 2.7 Research Methodology
 - a. Study Approach,
 - b. Data Collection,
 - c. Data Analysis And Interpretations.
- 2.8 Limitations Of The Study.
- 2.9 Conclusion.
- References.

2.1 Statement Of The Problems:

The decade of 1960s and '70s were attributed to the fast growth and development of public enterprises the world over and it was considered, at that time, a dominant part of the economy. But after '70s, the wind of public enterprises phenomenon began to change chiefly because of nagging performance of the State-Owned Enterprises (SOEs). A large number of State Owned Enterprises (SOEs) proved economically unviable, inefficient and unproductive incurring heavy losses and created heavy pressure on public budget. It became almost impossible for the government to run these loss making State-Owned Enterprises (SOEs). As a consequence, since 1980, the economic reforms through privatization gained credence all over the world and reached pinnacle of popularity by '90s, specially with the decline of communism in Eastern and Central Europe as well as integration of German Democratic Republic (GDR) in 1989. In this decade, more than 2000 State-Owned Enterprises, (SOEs) were privatized in the developing countries and altogether 6,800 SOEs the world over.¹ In the 1980s, the developed countries such as the United States and the United Kingdom gave forceful ideological support to privatization. The intellectual debate on privatization and restructuring of the economy created interest in the privatization programme. The international agencies were also influenced by the opinions in favour of privatization and accordingly contributed towards it. With this background, more and more states began shifting State-Owned Enterprises (SOEs) to the private sectors in both developed and developing countries.

The spectacular growth of public sector in Bangladesh during the post liberation period (1971-75) was the outcome of some incidental and political reasons. The war of liberation left the country's infrastructure totally devastated. Industrial and commercial enterprises were closed down. The mass exodus of Pakistani entrepreneurs, managers and skilled manpower created a vacuum in the area of industrial and commercial management.

Under these circumstances, the government took over the abandoned business; and, at the same time, the government announced to socialise the country's means of production. Thus "85 per cent of industrial assets were nationalised in 1972"². But the government failed to run the State-Owned Enterprises profitably and efficiently for a variety of reasons of which 'mismanagement, corruption, and lack of accountability'³ were prominent. The ever increasing losses of these SOEs exerted heavy pressure on the country's fiscal situation. In 1976, the new government understanding the failure of the public sector in the economy, discarded the socialist approach and adopted new policy of denationalisation or privatization of public enterprises. "Since then the successive governments in Bangladesh have divested 609 industrial enterprises, 2 banks, and an estimated 465 commercial business for a grand total of 1076 units upto mid 1988"⁴. The

present government has also adopted the policy of privatization of textiles, steel and engineering, chemicals, sugar and shares of multinational companies.

In a few words, privatization in Bangladesh is the outcome of political and economic events. During 1971-75, the political factors forced the State to nationalise business abandoned by Pakistanis. The government undertook rehabilitation of all the closed industrial units. In the subsequent period, 1976-81, the State initiated 'privatization' of these units for efficiency and commercial viability. Since 1982, the economy has been restrengthened to meet global competition. In a short span of 15 years, the economy has passed through sudden and swift changes. It has created all the problems of economic adjustment, adaptation and reorganization in fast changing global scenario.

The present study is the serious endeavour to bring in focus in depth analysis of all the issues arising from privatization in Bangladesh.

2.2 Review of Literature:

In this section an incisive analysis of the contents of available literature on different aspects of privatization has been reviewed at length. The whole review of literature for the present study has been segmented into four parts which are as follows:-

- (a) Survey of literature on Ideological and conceptual aspects of privatization.
- (b) Literature available on Global Experience of Privatization.
- (c) Literature review of privatization in Bangladesh.
- (d) Analysis of Major Empirical findings of the review of literature.

The succeeding paragraphs take into account a detailed review of literature on privatization in two broader perspectives - global in general and Bangladesh in particular which makes the focal theme of the present study.

(a) Ideological And Conceptual Aspects Of Privatization:

Rosen and Michall (1987)⁵ in their article entitled "**How well is employee ownership working**", highlighted the employee ownership plans in privatization that on Employee Stock Ownership Plan (ESOP), companies, employees have gained financially and companies have grown much faster. Because ownership has provided a strong incentive for employees to work productively and opportunities for participation has enhanced productivity by providing channels for workers ideas and talents.

Baquer (1989)⁶ in his article captioned "privatization of enterprises", viewed that privatization of public enterprise can be done in various ways like divestiture of government economic activities, individualization of economic activities,

reprivatization, deregulation, contracting out and voucher system. The success of privatization policy depends on accurately identification of the impediments and their sources as well as the means to find the way around those impediments.

Barnekov and Raffel (1990)⁷ highlighted on productivity of services among the public and private enterprises. They claimed that the shift from public to private provision of a service is no panacea for greater productivity. The best opportunity for improving productivity using privatization occurs when the service is easily measured and monitored, but productivity effects are more ambiguous when the situation is complex, as in such fields as human services and education.

A paper on "A Guide to Privatization" presented by International Chamber of Commerce (ICC) Paris (1990)⁸ focussed on different issues as well as different types of privatization, its relevance to apply in different situation of different countries.

Momtazuddin (1991)⁹ in his article entitled "Privatization: present status and future potentials as policy options for development", presents a conceptual guide line regarding privatization. He expressed his opinion that privatization should be considered from both economic and ideological view points. From economic point of view, privatization is identified as a means of increasing output, improvement of quality and minimization of cost. On the other hand, from the philosophical point of view, privatization broaden the base of ownerships that an individual has a stake in the economic system.

Prasad (1991)¹⁰ opined that public enterprises lack autonomy. It is bureaucracy which takes major decisions for the organisation. On the otherhand, the private sector organisation model has several elements which ensure efficient management apart from market forces.

Singh (1991)¹¹ throws light on a basic issue that whether the new pattern of ownership leading to privatization of public sector undertakings results in greater efficiency or not. The resource factor and management factor are the two cardinal elements which need to be considered in any move on privatization.

Mohnot (1991)¹² has made an attempt to conceptualize the enterprise models and their comparative advantage in the context of privatization. It brings into bold relief the criticality of transfer of management for privatization and considers that transfer of ownership is only a partial step towards the transformation.

Chelliah (1991)¹³ opines that the resource crunch is a crucial factor for government's decision making in the shift from public to private sector. There is a basic need for market discipline that can not be wholly ensured under public enterprise.

Goodman and Loveman (1991)¹⁴ express that the success of privatization depends on managerial performance that how and in what extent the management

works for public interest. For successful privatization a competitive market should be there. Accountability and consonance with the public interest should be guiding light.

Athreya (1991)¹⁵ in his article entitled "Alternative Models for Privatization", examines the issue of privatization with the parallel concepts of people-isation, de-governmentalization and marketization. He also evaluates different types interventions towards privatization, like-government majority, government controlled, joint sector and total privatization. He has examined all the four models and presented a cost- benefit analysis of these models from government point of view. He found each of the model is suitable for different types of product and services and national or regional sub-cultures.

Reddy (1991)¹⁶ favours the development of the theory on privatization distinguishing the concept of macro from micro privatization. To operationalise the concept of relative efficiencies, the author presented a five-tier approach and outlines a process design for privatizing public enterprises.

Jones and his associates (1991)¹⁷ in their one of the significant studies developed and suggested an analytical cost-benefit frame work which can be used here to answer the three basic questions relating to privatization process. These are (a) Should the State Owned Enterprises be sold? (b) To whom should it be sold? (c) At what price should it be sold? They also identified the misconception in society about the value of public enterprises as the government hesitates to sell profit making enterprises while private buyers are not interested to buy losing concern. By using the same cost-benefit frame work one can also evaluate the post privatization effect.

Jonathan and Szymanski (1992)¹⁸ in their article captioned "A Bargaining Theory of Privatization", made the comparison between public and private sector that public sector firms have wider social objectives, wages are high because unions have a larger surplus over which to bargain, so they make losses. On the other hand, the private sector firms have purely commercial objectives. They restrict output and employment and unions obtain lower wages, so they make profits.

Guislain (1992)¹⁹ illustrates critical legal issues arising in the context of the transfer of public issues arising in the context of the transfer of public assets to the private sector focussing in particular on the sale of State-Owned Enterprises (SOEs). He underlines the importance of proper legal analysis and inputs at all stages of the divestiture process, legal constraints to divestiture need to be identified and then removed inorder to divest successfully.

Heald (1992)²⁰ in his research article entitled "How much Privatization Should there be in Developing Countries?", notes that there should be extensive divestiture of public enterprises in competitive or potentially competitive sectors. He has also mentioned that divestiture should be viewed as either a policy objective

or as an instrument for attaining efficiency.

Bishop and David (1992)²¹ advocate that change of ownership brings about the change in regulatory environment which compels the organization to perform more effectively.

Lieberman (1993)²² states that privatization of SOEs should be viewed as a critical element of economic adjustment. He identifies the underlying rationale for privatization as it reduces the government's operating deficit, raises cash through State-Owned Enterprises (SOEs) sales, reduces external debt, increases productive and operating efficiency etc. and cautions against pitfalls to successful programme implementation.

Reddy (1993)²³ in an article entitled "Privatization as Development Strategy", observes that privatization by itself does not automatically lead to better efficiency but needs to accompany overall packages of employment, technology modernization, productivity and professional management. It reduces government's budgetary commitments, political and bureaucratic interference and ensures overall economic development. So, the process of privatization may become an instrument of public enterprise reform and development of economy.

Henry and White (1993)²⁴ have examined the implication of two techniques of privatization viz, Build-Operate-Own and Build-Operate-Transfer. They have also focused on the success of Malaysian privatization programme following these techniques.

Schregle (1993)²⁵ in his article, "Privatization And Industrial Relations : General Perspective," has highlighted on some of the major industrial relations problems arising from privatization. If privatization policies are to be carried through with a minimum of labour troubles and a maximum of economic, social and political stability and efficiency, it is required to promote a close, constructive dialogue between public authorities, employees organisations and trade unions.

Sunita Kikeri and others (1994)²⁶ in their research paper captioned, "Privatization: Lesson from Market Economies", examine the objectives of privatization and the strategies for achieving them in both competitive and non-competitive markets. The authors analysed the various tactics that can be or have been employed in relation to scope, pace, sequencing and methods of implementation. The evidence shows that privatization produces benefits of efficiency if done right.

Deogirikar (1994)²⁷ in his research paper "Privatization: A Global Survey", concludes that the strategy of reform for the less developed countries should be improvement of efficiency. The success of privatization depends on economic, political and social factor and managerial considerations.

Bhaskaran (1994)²⁸ viewed that talking about privatization is easy but implementing it may not be so. The transition needs to be brought in very carefully and the impediments need to be tackled tactfully. There is need to do the homework in a systematic manner; only then can we bring about the desired change without pain, panic and trauma.

Chowdhury and Amarendra (1994)²⁹ in their research paper entitled "A New Philosophy of Regeneration", observed that privatization may improve efficiency and productivity but government must play a watchdog role for protecting the interest of consumers, poor sections of society and to ensure more benefits from privatization.

Fadnavis (1994)³⁰ favours competition which in his opinion ensures efficiency. He strongly feels that privatization is not a panacea for all economic problems in any country. It should be identified that in what circumstances privatization can work better.

Guha (1994)³¹ in his article "Privatization: No Easy Solution", viewed that private sector participants should have the provision of fixing manpower wages, making job descriptions etc. Labour law should be reluctant in order to employ managerial personnel from the market. The author further stated that tariff structure, corporate tax structure, interest rate should be favourable to private owners.

(b) Privatization In Global Perspectives:

Sikorski (1989)³² using the case study on privately owned and two State-Owned shipyards in Singapore, examines that the State Owned Enterprises differ in performance and behaviour from private enterprises. The state enterprises perform very well, primarily due to superior and innovative management teams.

Seng (1989)³³ cited the example of the Chinese privatization programme. China has attempted to remove the bureaucracy from the public enterprises which is quite relevant to the issue of privatization. The market oriented reform in China depends on whether public enterprises can compete in a market environment after obtaining independence from the government.

Edozien and Adeoye (1989)³⁴ made an interesting study as regards privatization in Nigeria. He reveals in his study that Nigeria has followed multiple options of privatization. A properly implemented privatization programme has the potential to promote productivity and profitability. Private sector in Nigeria has developed sufficient know-how to be able to take over the investments that will result from divestiture.

Sullivan (1989)³⁵ in his significant study pertaining to privatization in Ethiopia, Malawi and Uganda reveals that in Malawi, all options of privatization

have been opened whereas commercialization rather than privatization are considered in socialist Ethiopia. Malawi and Uganda have accepted privatization as a strategy of increasing efficiency and return on capital. All these countries have formed commission that can play a vital role regarding privatization.

Felipe Ortiz (1989)³⁶ expressed that the participation of the Peruvian state in entrepreneurial activities is a recent political process. Privatization debate has been continuing since 1975 a little has been achieved since 1988, because the economy is so heavily public enterprise dominated.

Chwee-Huat (1991)³⁷ in his research paper entitled "Issues and Problems in Privatization," highlighted the role played by public enterprises in the economic development of the ASEAN (Association of South East Asian Nations) countries. His main focus seems to be on rationale for privatization. He also focuses on the issues and problems encountered in implementing the privatization plans.

Buck, Tohmppson and Wright (1991)³⁸ has presented an emperical evidence on the performance of different modes of privatization in Britain-Flotations, direct sales, employee and management buyouts and discussed the trade-offs involved in each one of these and their suitability in the context of Eastern Europe.

Lee and Nellies (1991)³⁹ have studied the reform programmes taken by seven socialist countries, such as, Algeria, China, Hungary, Laos, Mozambique, Poland and Yugoslavia. These countries have tried long to improve the performance of SOEs by restructuring. Recent reforms in most of these countries broaden the choice of instruments by including privatization and liquidation.

Valentiny (1991)⁴⁰ has highlighted on Hungarian Privatization that after passing a series of laws Hungary is all set for privatization. The study further considers the possible threats of failure in the implementation of the process in Hungary.

Mejstrick (1991)⁴¹ has critically reviewed the historical background of the current privatization drive in the central and the Eastern Europe and mainstream of privatization thinking in Czechoslovakia as well as problem encountered in implementation of privatization.

Willson (1991)⁴² discusses about Polish privatization that after a long debate it took a variety of privatization modalities and developed a detailed strategy. The study also presents the first privatization and suggests what lessons Polish experiences hold for reform and privatization strategies in other reforming socialist economies.

Okonkwo (1991)⁴³ in his study entitled "The Political Economy of Privatization in Nigeria" observes that the structural adjustment programme in Nigeria is designed to improve the efficiency of public enterprises to turn them into

profitable undertakings. Ownership may not be the most important question. The real issue is to increase competitive pressure accompanied by managerial reform.

Vokmir (1991)⁴⁴ has made study as regards Croatia's Privatization law, and types of privatization-sale, additional investment, conversion of invested assets and claims into capital participation, distribution of shares to funds-and the guidelines with detail procedures for privatization at the enterprise level.

Mark Higson (1991)⁴⁵ has studied the illness of SOEs and comparative advantages and disadvantages of Privatization in the U.K. Privatization has gained more benefits than the costs involved with it, such as, financial soundness efficiency, development of concept of ownership etc.

Adda (1991)⁴⁶ presented the Ghanaian SOEs reform programme, divestiture and privatization programme, its success and obstacles. Though there were some problems, however, the divestiture programme was successful because of raising sufficient funds to the governments treasury.

Stephenson (1991)⁴⁷ highlighted major characteristics of privatization in different countries, problems faced by the British experiment along with its achievements. He also stated that in developing countries most of the privatization efforts focus on assets sales, where capital markets are relatively small, the privatization programme shall have of necessity, to be gradual.

Dalal (1991)⁴⁸ viewed the diverse approaches and experiences of privatization programmes in different countries. He concluded in his study that success of privatization in planned economies (China, Vietnam) depended on the reform of their legal system and the induction of professionals in management.

Cakmak and Zaim (1992)⁴⁹ observed through a study on "Privatization and Comparative Efficiency of Public and Private Enterprises in Turkey - The Cement Industry that to promote productive efficiency there must be a competitive environment rather than transfer of ownership.

John Moore (1992)⁵⁰ highlighted on the tremendous success of British Privatization. In 1989-90, the U.K. government raised a large amount, riched the treasury and rescued the economy through privatizing SOEs. For successful of large scale privatization, the policy of widening the market for shares as well as the concept of ownership among people must be ensured.

McDonald (1993)⁵¹ studied the privatization of the Eastern Europe. He summed up his conclusion that privatization alone is not sufficient for the improvement of the company as well as the economy. The privatized companies need dominant, experienced share holders to help the management and at the sametime well managerial environment should be ensured and Foreign Direct Investment should be attracted.

Marko (1993)³² advocated the strategies followed by Hungary, Poland, the Czech and Slovak Federation and Germany. Poland has followed public offering of shares, while Germany and Hungary, as well as the Czech and Slovak have experience in selling large companies to strategic investors. Privatization programmes should be amended and managed on the basis of domestic and foreign experience.

Yo-ichi (1993)³³ highlighted on Privatization of the three State Owned Enterprises for example the Japan National Railway, The Nippon Telegraph and Telephone and Japan Bureau for Tobacco and Salt. The Privatization Programme of these three enterprises have succeeded through full cooperation between management and labour. Various problems have been overcome through privatization.

Boycko and others (1993)³⁴ focussed on Russian privatization, its success and failure and at the same time, made suggestions that what should be done for better success of privatization programme. They argued that depoliticization of the firms is must for success of the programme.

Shirley and Nellis (1993)³⁵ have made endeavour to explain the experiences of public enterprises reform in Africa, Asia and Latin America. They suggested that the government should move pragmatically and without haste. It should build public commitment to the reform effort through education and by balancing losses and long-term changes with actions that produce quick pay offs.

Qamar (1994)³⁶ in his research paper entitled " Current Privatization Policy and Prospective View of Privatization in Pakistan," gives a brief review of the process of privatization in Pakistan. The paper introduces salient features of the current privatization policy of the government of Pakistan and examines the future prospect of the vital ingredient 'agenda for change', introduced by the present regime.

Narayan Swamy (1994)³⁷ attempts to outline some of the dramatic changes that have taken place in the Central Europe during the past five years with a view towards examining its implications for governments and business among both the countries of Central Europe on the one hand and South Asia region on the other.

Pande (1994)³⁸ discusses the main changes required at the macro policy level and at the micro-company level in order to enable the existing public enterprises in India to adjust to new economic realities and operate efficiently in the changed domestic and international business environment of the nineties.

Prahlad Basu (1994)³⁹ opines that the primary objectives of privatization in India is to reduce the fiscal deficit of the government for successful privatization, the author suggested to follow some steps as there should be divestiture and non-divestiture options. There should be a sound capital market and there should be an

institutional framework who can prepare a medium term strategy to utilize public enterprise specifies divestiture and non-divestiture options- which can fulfil the criteria of both efficiency and welfare.

Gupta's (1995)⁶⁰ study has also highlighted on some problems regarding privatization of public - enterprises in India. In his study he lays emphasis on the labour problems as there is no social security in India. He advocates that the National Renewal Fund (NRF) should be strengthened for adjustment of the workers problems.

(c) Literature Review Of Privatization In Bangladesh:

Sobhan and Ahsan (1984)⁶¹ has analysed the process of disinvestment of the formerly corporation managed units in Bangladesh and has reviewed the performance of the units which were transferred to private ownership from 1976 onwards. The study has noted no significant result from disinvested enterprises.

Humphrey (1988)⁶² in his book entitled ' Privatization in Bangladesh' explains the historical background of State Owned Enterprises as well as privatization programme and at the same time causes of failure of SOEs and different faults of privatization programme. He mentions, that there has been an enormous gap between policy statements and implementation of policy. The private sector was hindered by bureaucratic red tape and an adverse regulatory environment. He further opines that the success or failure of privatized firms depends not only on the managerial and marketing skills of the entrepreneur but also on external forces and factors beyond the control of the enterprise. He has also made some vital recommendations for successful privatization programme in Bangladesh.

Miyan (1989)⁶³ in his research paper " Rebalancing of Private and Public Sector in Bangladesh," has traced the transition of the economic perspectives, the process involved and controversies aroused in effecting changes in the context of rebalancing between public and private sectors in Bangladesh. But he has not mentioned about the ultimate results of rebalancing policies adopted by the government from mid 1970s. In this regard, he has suggested for a primary level of investigation on different aspects of rebalancing policies which would be helpful to have a total understanding of the policies in a changing socio-economic environment.

Siddiqi (1990)⁶⁴ in his article entitled " Prviatization and Policy towards Improvement of Public Enterprises Performance', has described the historical perspective of privatization and has also examined the effectiveness of policies of privatization in conjunction with policies towards improving the performances of public manufacturing enterprises. The author has thus concluded that privatization programme has achieved its goals partially and needed modification. He has also made some recommendations to make policies more effective and pragmatic.

Sobhan (1990)⁶⁵ has reviewed the role of state policy in the development of the private sector in Bangladesh examining those various policy initiatives impacting on the private sectors. The author found that Bangladesh has an active entrepreneurial class who is able to face any challenge. But policy makers should consider all the current circumstances.

Haque and Mohiuddin (1991)⁶⁶ have made an analytical study on the productivity of some public and private sector steel mills in Chittagong. The study reveals that the productivity management from the view points of production, organization, production planning and control and production performance has been more efficient in the private sector as compared to the public sector mills because public sector mills have been suffering from some problems.

Chowdhury (1992)⁶⁷ has examined critically the transfer of state assets to the private sector that has been taking place in Bangladesh since the mid 1970s. He has presented a historical background of nationalization and a poor outcome of state ownership in general. He has further highlighted historical and political perspective of privatization initiated in mid 70s. The author has also critically evaluated most of the policy changes and their immediate effect on national economy and finally has appraised the privatization of SOEs as a significant step towards establishment of a competitive market economy.

Saroj (1992)⁶⁸ has analysed the performance of some privatized cotton mills and has observed that total average production of these mills has decreased in comparison to pre-disinvestment period, though average sales performance and profit performance have shown a tiny ray of progress. The author has suggested that the socio-economic realities of the country should be taken into proper consideration before formulation of any policy relating to privatization.

Mohiuddin (1992)⁶⁹ has stated that disappointed performance of SOEs has compelled the government to adopt privatization policy with expectation that privatized enterprises would improve efficiency, but the performance of these privatized enterprises was poor and sluggish.

Muinuddin (1992)⁷⁰ has identified the causes of sluggish performance of jute manufacturing industries and has suggested the ways and means to remove those causes. At the same time, he has evaluated some aspects of the operational performances of the jute industry on a comparative basis of the public and private sector jute mills and has found that the overall performance of private sector jute mills were better than the public sector because of better utilization of men, machines, materials and money.

Raza (1993)⁷¹ favoured the phasewise privatization. He also pointed out the various impediments to Private Sector led growth in Bangladesh like, technical issues, direct resistance to such programmes, gap between policies and their implementation, bureaucratic red-tapism, lack of proper financial discipline etc.

Khaleda Khanam (1993)⁷² critically studied disinvestment of shares and its impact on management of a company named Kohinoor Chemical Company Limited and found that disinvestment of shares brought about a change in the financial structure, system of management, power distribution and control. The workers resisted the change, labour-management relationship has deteriorated. The authoress suggested that the policy makers must find out ways and means to deal with the resistance.

Ramachandran (1994)⁷³ briefly described the rationale of privatization in Bangladesh highlighting the macroeconomic aspects. He explained about the bad effect to the economy due to incurring heavy losses of SOEs. The author also mentioned about the weakness of the regulatory environment and suggested to modify it for successful privatization.

Abu Taher (1994)⁷⁴ highlighted briefly the historical background of privatization in Bangladesh as well as its impact on industrial relations. He pointed out that the privatization policy pushed the workers in an unfavourable situation to confront retrenchment. So, they opposed privatization. The author suggested that the labour would not oppose privatization if their interests were protected and they should have the rights of collective bargaining which would ensure a congenial labour-management relations.

Shamsul Haque (1994)⁷⁵ has reviewed the labour issues in privatization in Bangladesh. He has explained the characteristics of labour, causes of industrial disputes and its settlement, growth of trade union etc. He has also suggested for removing the labour problems arising out of privatization taking various programmes like VDS, training and retraining, credit based employment schemes etc.

(d) Analysis Of The Major Empirical Findings Of The Review Of Literature:

From the foregoing review of available literature, it may be observed that the effectiveness of privatization depends on various factors under various situations. Some of these factors are briefly analysed as under :

1. Privatization Leads To Better Efficiency and Productivity:

It starts from an ideology that private ownership works better than government ownership. It was Adam Smith who put forward his argument that "no two characters seem more inconsistent than those of trader and sovereign".⁷⁶ People are more prodigal with the wealth of others than with their own.⁷⁷ Public administration is negligent and wasteful because public employees do not have a direct interest in the commercial outcome of their actions.⁷⁸ In State Owned Enterprises (SOEs), neither management nor employees or trade unions belong to the enterprise hence they have no responsibility about the performance of the enterprise and they are very much reluctant about their duties.

In private enterprises, the condition is just reverse. Its management and employees own the shares of the enterprise, they all become very careful about the performance of the enterprise. Because if the enterprise runs with profit, they will be gainer so that they try their level best to increase efficiency and productivity. Further more, without increasing efficiency and productivity they can not exist in the competitive market.

The main motive of the private enterprise is to maximise profits, so the cost is minimised that is not practiced in the SOEs. Because public enterprise decision makers lack incentives to control cost. One of the important reasons for this is the fact that 'it is hard to distinguish good from bad managerial performance, since there were both legitimate and illegitimate reasons for saving money'.⁷⁹

2. Total Success Depends On Socio-Economic Factors:-

Experience from different countries evidenced that privatization was intensely political. Political implication is a must to succeed any programme of privatization. The U.K. privatization has succeeded because they had strong political willingness. 'Salinas de Gortari in Mexico and Menem in Argentina have sought to reverse gears of government intervention in their respective economies and the basic ideology of their own political parties by making privatization a cornerstone of their own economic reform programmes'.⁸⁰

Labour relation is also an important factor relating to success of privatization programme. Labour must accept and adapt with the change of the enterprise. For this, labour's interests must be protected. " In all privatization schemes, labour relations problems are likely to arise, stemming from workers' fears of job and income losses and a decrease in trade union influence.⁸¹ They will never oppose privatization if their interests are protected.

3. Each Model Of Privatization Is Suitable For Different Types of Situations:

There are some models of privatization, such as⁸² -

- i. Government majority Enterprise (GME, 51% plus)
- ii. Government controlled Enterprise (GCE, 26-49%)
- iii. Joint sector enterprise (JSE, 26% + 25% + 49%) and
- iv. Private enterprise.

The successful application of these models depend on different environment and different situation of social, economic, cultural, nature of production etc.

4. Competitive Situation and Market Discipline are Crucial for the Success of Privatization:

There should be a competitive environment for successful privatization where public and private enterprises co-exist. Customers will lose their benefits if competition does not prevail in the market. At the same time, market discipline is not possible under public enterprise, because private enterprises are enlisted to the stock market so that they must obey some rules and regulations. In order to attain market discipline and more competition, the legal aspect of marketing should be considered.

5. Cost-benefit Framework Can Be Used to Assess The Need For Privatization and Also Measure The Post Privatization Effects:

The policy makers should analyse the costs of privatization and potential benefits from it. By analysing costs-benefits theory one can ascertain whether SOEs should be sold or not; or to whom it should be sold and at what price it should be sold.

By using this analysis, post privatization performance can also be measured and can be assured whether privatization is really beneficial to the society or not.

From the foregoing discussion, it has been deduced that not much academic work has been done on privatization particularly pertaining to Bangladesh. The present study has been undertaken to assess the impact of privatization on different facets of the economy in Bangladesh. The study focusses and highlights the emerging issues of ongoing privatization programmes and policies in the wake of Industrial policies of 1982, 1986, and 1991. Based on these issues, the endeavour has also been made by the Researcher to evolve strategies for effective privatization of State-Owned Enterprises (SOEs) in future.

2.3 Need For The Study:

The changing socio-economic milieu of the whole world has permeated to Bangladesh for economic reforms through privatization. The successive governments of Bangladesh introduced different policy packages on privatization and accordingly many enterprises have been privatized. However, the methods and techniques adopted for privatizing these SOEs have suffered from serious lacuna. Therefore the privatization programmes have not gathered the required momentum as in many other developing countries, like Malaysia, Argentina, Chile etc. This topic hence deserves special importance to find out the practical problems of the privatization programmes in Bangladesh, arising out in the context of industrialization efforts. The findings and recommendations of the study will help the policy makers of Bangladesh to chalkout the proper policies regarding future privatization in Bangladesh. It would also be helpful for the management of the privatized enterprises to overcome their existing difficulties in running their industries effectively.

2.4 Scope Of The Study:

Privatization of State Owned Enterprises (SOEs) is a crucial question now - a-days. Ideological argument continues between those who think privatization is good and those who think it is not good for the economy. There is no conclusive data to settle the issue, but privatization is a reality whether it is good or bad and this is the starting point of our study. Since Bangladesh has adopted a vigorous privatization programme, so, it is a good laboratory to do research about the successfulness of privatization in Bangladesh.

In Bangladesh, Privatization Programme has been implemented following the methods such as, return of earlier nationalised units to the original owners, sale of SOEs through open tender, sale of shares in the capital markets, retaining limited portion as reserve for the employees etc. In the present study, effectiveness of all these methods followed in Bangladesh has been critically considered. Highlighting on the overall privatization programme adopted in Bangladesh, vital issues regarding implementation of the programme have also been identified and accordingly strategies evolved for effective and better implementation of the programme in future. Since the study focusses on overall privatization programme, any specific area or sector has not been undertaken for the present study.

2.5 Objectives Of The Study:

The objective of the present study is to assess the available documents within the relevant policy frame and identify major issues that need to be taken into consideration in the design and implementation of privatization process in Bangladesh. The study is concerned with the problems and prospects of privatization in Bangladesh. Specific objectives of the study are as follows:

1. To understand and analyse the concept of privatization.
2. To make analysis of the pros and cons of privatization implemented in different countries of the world.
3. To present historical background of nationalization and privatization in Bangladesh.
4. To present and analyse policies regarding privatization adopted from time to time in Bangladesh.
5. To pinpoint the problems associated with the implementation process of the privatization policies.
6. To assess the practical implication of the privatization policies adopted by the government of Bangladesh.
7. To assess the performance of denationalised industries with comparison to SOEs.

8. To determine the width of success of privatization in Bangladesh.
9. To evolve suitable strategies to cope up with issues in privatization process.
10. To focus on future prospects of privatization in Bangladesh.
11. And finally to draw conclusions on the basis of the findings that may help the policy makers, and government agencies.

2.6 Hypotheses Of The Study:

On the basis of the conceptual framework and inferences drawn from the previous empirical findings the following hypotheses have been tested:

1. That private enterprises perform more efficiently than public enterprises.
2. That the State Owned Enterprises (SOEs) have considerably improved their performance after they were privatized.
3. That appropriate strategies are needed to be evolved for further privatizing SOEs in Bangladesh to obviate the obstacles and stumbling blocks confronted during the privatization process.

2.7 Research Methodology:

a) Study Approach:

The present study is based mainly on secondary data gathered from published and unpublished materials. However, primary data have also been gathered in the form of informal interview with the concern individuals and organisation in Bangladesh.

The research approach of this study entails a thoughtful analysis of previous researches and writings on privatization alongwith the analysis of collected historical data. It is to be accentuated that the nature of study is exploratory and descriptive in nature and then suggestive.

b) Data Collection:

The data and relevant statistical informations have been collected from different sources. They are enumerated as follows:-

1. The privatization Board, Dhaka.
2. BTMC, BTMA, BJMC, BJMA, Dhaka.
3. The Dhaka Chamber of Commerce and Industry, Dhaka.
4. The World Bank Bangladesh Mission, Dhaka.
5. The Board of Investment, Dhaka.

6. The Bangladesh Institute of Development Studies (BIDS), Dhaka.
7. The Ministry of Industries Dhaka.
8. The Ministry of Finance, Dhaka.
9. The Planning Commission, Dhaka.
10. The Dhaka Stock Exchange, Dhaka.
11. MIDAS, Dhaka.
12. The Investment Corporation of Bangladesh, Dhaka.

The articles published in various journals, periodicals and dailies in Bangladesh, India and Abroad have also been found to be of great utility.

c) Data Analysis And Interpretation:

The study procedures and analysis entails the following steps:

1. Preparation Of Research Framework Involving:
 - a) Moving of a list of variables, subvariables and indicators relating to privatization based on conceptual framework.
 - b) Reflective arrangement of research objective.
 - c) Introspective preparation of the contents of the proposed thesis (chapter outline).
2. Review of Literature Materials In Such a Way That:
 - a) Contextual classification of available literature/materials.
 - b) Analysis of all available literature /materials in accordance with the variables, subvariables and indicators identified the research framework.
 - c) Necessary statistical analysis of relevant secondary data and official data.
 - d) Synthesis of all relevant informations found and generated in the previous steps.

2.8 Limitations Of The Study:

The study can, at best, be considered evocative, explanatory and explorative. However, the data used for this study are subject to the following limitations:

1. Data were not available in a common format.
2. Official data are difficult to obtain, because officials are not often forthcoming with important information.

3. More sophisticated statistical techniques could not be used due to non availability of relevant data in the desired format.

The above explained problems have no doubt impinged on the scope of the present study but then the inferences drawn and results obtained have in no way been otherwise affected. The interpretation and analysis of the available statistics are valid and have produced prolific result to evolve strategies for effective future privatization in Bangladesh.

2.9 Conclusion:

To recapitulate, this chapter has highlighted the problems, the need, the scope, the objectives and hypothesis of the study. It substantiates the Research Scholar's view that privatization in Bangladesh is confronted with issues unique to its socio-economic make up which calls for proper strategies.

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CHAPTER - III

PRIVATIZATION : MEANING AND CONCEPTS

After having reviewed in detail the related literature on privatization in different countries of the world and having prepared the framework of the study the present chapter deals with the meaning and the concepts of Privatization. The subject matter of this chapter has been presented in the following manner :

- 3.1 Introduction.
- 3.2 Privatization - A Conceptual Analysis.
- 3.3 Privatization - Macro Dimensions.
- 3.4 Privatization - Micro Dimensions.
- 3.5 Conclusion
- References.

3.1 Introduction:

The decades of 1960s and 1970s were largely attributed to the era of fast growing public enterprises almost the world over. Public Enterprises were then considered the chief source of attaining socio-economic development. However, with the passage of time, this very concept has come under severe attack because of lack-lustre performance (physical and financial both). In the latter part of the decade of 80's and with the onset of the decade of 90's, the word competition has gained currency in every walk of business activities. Many countries of the world adopted vigorous reform programmes through liberalization, delicensing and privatization of public sector enterprises. Among them 'privatization' is the 'buzz' word every where in the world under the shade of competition and efficiency. In the succeeding paragraphs, an extensive analysis as regards the concept of privatization is presented.

3.2 Privatization: A Conceptual Analysis:

There are various methods which are used for transferring public enterprises to private sectors. The succeeding paragraphs in this chapter make a comprehensive conceptual analysis of the privatization process.

There is no rigid concept of privatization rather it conveys a variety of ideas. It may differ from case to case and country to country. The concept of privatization is, in fact, far wider. It is to be understood not merely in the structural sense of 'who owns an enterprise, but in the substantive sense of how far the operations of an enterprise are brought within the discipline of market forces'.¹ The concepts with regard to privatization may be studied with two approaches; Economic approach and Ideological approach. Economic approach is growth and efficiency-oriented. In this approach 'Privatization is defined as a means to increase output, improve quality and reduced unit costs'.² It is believed further that Privatization reduces government debt, raises fund, develops private initiatives in the free competition of market. 'Privatization leads to open competitive market economies that produces higher incomes and more permanent jobs'.³ From the view point of the ideological approach, 'Privatization is a way to broaden the base of ownership and participation in a society encouraging larger numbers to feel that they have a stake in the economic system'⁴.

Privatization may be defined as a process by which the people of a country can participate in every phase of economic activities and play a vital role in the economic development of the country. In simple terms 'Privatization' means off-loading a portion of the government held equities in public sector undertakings to the numbers of the public to ensure wider

ownership, greater accountability and providing the companies an access to domestic and international capital market.' Privatization can generally be defined ' as any measure resulting in the transfer from the public to the private sector of ownership or control over assets or activities'.⁶

Commensurating different approaches underlying conceptualization of privatization, different people define privatization in different ways which are critically studied in the following paragraphs.

G.W. Johnson and others⁷ define, privatization as the participation of the private sector in the production and/or delivery of public services.

According to H.N. Agrawal⁸, privatization consists all those steps, taken by a government which are directed towards (i) helping and encouraging private sectors undertake more economic activities and become more efficient and competitive and (ii) effecting transfer partially or fully, of public enterprises to private sector with a view to achieving efficiency, productivity, profitability and simultaneously to ensure fair awareness towards social obligations.

It becomes clear from Agrawal's opinion that the main themes of privatization are to attain efficiency, profitability and overall factor productivity. He also further argues that every privatization manifestation should be careful about fulfilling the social obligations alongwith achieving efficiency, profitability and productivity.

Hanke⁹ gives an account of the objectives of privatization as follows:

- i. Improvement of the economic performance of assets or services functioned concerned.
- ii. Depoliticization of economic decisions.
- iii. Generation of public budget revenues through sale receipt.
- iv. Reduction in public outlays, taxes and borrowing requirements and
- v. Promotion of popular capitalism through wider ownership of assets.

Almost similar view has been presented by Ronald Dutt.¹⁰ that ' Privatization merely recognizes that what matters most is the quality and cost of product or services provided and not who provides it'. However, He has segmented the process of privatization into four categories".¹¹

- i. Load shedding or Transfer of defaults.
- ii. Limited Government Arrangements.
- iii. User charges and
- iv. Competition.

The first technique urges that if the objectives of the public enterprises are not achieved and justified, then the private sector should come ahead and take the responsibility of the state socio-economic systems and to satisfy the needs of the people by ensuring better performance in the form of higher profitability, improved productivity and efficiency. This technique is termed as load shedding or transfer by default technique.

Another technique is known as 'limited government arrangement technique that refers to make an uninstitutional arrangement where the government plays a crucial role in economic activities, but in a minimal way. This technique should be applied when the first technique i.e. load shedding technique is not possible to be applied.

The third technique, i.e. User charges refer to such arrangement that are taxed on all services provided, including private as well as government controlled agencies. Thus, user can compare between the cost and quality of services provided by the private and public enterprises.

The last technique is 'competition. There is a common belief that the competition is the key factor of achieving better performance of both the sectors i.e. private and public. Privatization makes a situation where both the sectors compete with each other as a result, the services extended to the users become effective and qualitative.

In the words of N.C. Sengupta ¹², privatization in narrow sense, means the sale of state's equity holdings in an enterprise to private person. But in a broader sense, privatization comprises many more following developments :-

- i. Transition to private sector business, managerial principles and methods including an overwhelming concern for profits.
- ii. Closure or liquidation of State Owned Enterprises and the sale of assets.
- iii. Leasing of a state enterprise to a private party.
- iv. Management contract of an enterprise to a private party.
- v. Permitting private sector to enter into certain industries exclusively reserved for the government.

According to D.R. Pendse¹³ Privatization, in broader spectrum includes:

- i. Divestiture.
- ii. Denationalization.
- iii. Relaxation in Industrial Policy Resolution.
- iv. Closure or liquidation of any State Owned Enterprises.
- v. Leasing of a State-Owned Enterprise to a private sector party.
- vi. Transfer of management and control of SOEs to a Private Sector individual or agency.
- vii. Abandoning or postponing the prospects of state, expand or diversify the activities of SOEs, and
- viii. Farming out to private contractors or agencies the function of supplying various goods and services needed by the SOEs.

S. Vijaylakshmi¹⁴ defines privatization as a process which reduces the involvement of the state in the economic activities of a nation. In a broader sense, privatization will include the following:-

- i. Green field Privatization - any measure of economic policy which permits the entry of private sector in areas hitherto exclusively reserved for the public sector.
- ii. Closure or liquidation of public enterprises.
- iii. Restricting the expansion or diversification of the activities of any of the existing public enterprises.
- iv. Employing private contractors for supplying various goods and services needed by the public enterprises.
- v. The leasing of a public enterprise to the private sector.
- vi. Cold privatization - any measure which distances the public enterprise from the government.
- vii. Franchise financing under which an infrastructural project is built and often operated by a private agency.
- viii. Managerial privatization under which persons with experience in management of private sector companies are included on the Board of Directors of public sector companies and
- ix. Divestiture - Sale of shares and thereby transferring the controlling

power from the public sector to the private sector.

From the analysis of above definitions, it can be observed that all three experts have expressed almost the same view regarding the process of privatization which can be applied successfully.

According to Samuel Paul,¹⁵ in country after country, unbridled state expansion has led to (i) economic inefficiency in production activities of the public sector. (ii) ineffectiveness in the provision of goods and services such as failure to meet intended objective, diversion of benefits to elite groups and political interference in the management of enterprises and (iii) rapid expansion of the bureaucracy severely straining the public budget causing problems of labour relations with the public sector, inefficiency in government and adverse effect on the whole economy. Samuel Paul's concept of privatization focuses on both physical and financial performance of an enterprise. He has stressed on the adoption of privatization process as this idea ensures benefits to the capital owners, to the consumers by providing efficient service to the public at large through a reduction in public sector deficits.¹⁶

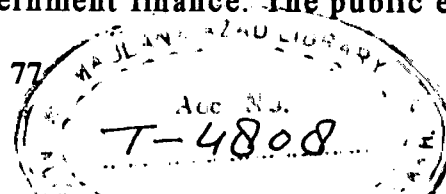
In the words of S.R. Mohnot,¹⁷ Privatization is induction of management control, via transfer of ownership or otherwise, often both, in public owned, or managed enterprises.

Ramanadham¹⁸ has opined that the best answer to the issue of privatization is to take the necessary steps to improve the efficiency of public enterprises by making suitable changes in the management structure and their relationship with the government and parliament. Steps should be taken to replace the civil service culture by commercial culture in public enterprises.

One of the significant studies on privatization of Public Sector Enterprises has been conducted to fulfill various objectives, which are: (1) Fiscal objectives (reducing revenue deficits), (ii) Economic objectives (efficiency through competition) (iii) Semipolitical objectives (emphasising consumers in preference to worker) (iv) ideological objectives (strengthening and deepening industrialism, property rights, etc.)¹⁹ This study has, however, added some new dimensions to the concept of privatization.

The policy makers in the developing economies favour privatization on the plea that the loss making public enterprises do not have any place in the economy.²⁰

A panel of economists suggested that public enterprises should not be allowed to become a burden on government finance. The public enterprises



which can not be viable may be closed down or sold off or restarted as private enterprises.²¹

Young²² identifies seven different forms of privatization:

- i. Special assets sales, which can involve denationalization, the sale of public sector companies previously bought by the government, the sale of government holdings in private companies.
- ii. Deregulation or relaxing state monopolies which exposes individual public sector organizations to competition.
- iii. Contracting out work previously done by direct labour in local government.
- iv. The private provision of services, allowing the private sector to provide services to the public.
- v. Investment projects designed to encourage the private sector to invest in projects in deprived areas and extending private sector practices into the public sector, often involving the creation of special units within public sector organizations to secure a more commercial returns on assets.
- vi. Reducing subsidies and increasing charges, particularly in relation to the welfare services, and
- vii. The sale of council houses as an important element of privatization, given that such sales have greatly reduced public sector housing provision and therefore the scope of public sector for housing. Elliot Berg²³ advocates that privatization has assumed increasing importance due to the reason that the government everywhere are looking for new ways to mobilise resources and ways to use the resources they have more effectively.

3.3 Privatization In Macro Dimensions:

William Glade²⁴ perceived four Macro dimensions of privatization, such as:

- i. **Privatization of Financing:** It entails the utilization of private funds to relieve the state enterprise from temporary budgetary problems.
- ii. **Privatization of Production:** It includes the introduction of contract labour instead of directly employing labour force.

- iii. **Privatization of Denationalization :** It is the most important and undisrupted form of privatization which involves the selling of shares of Public Enterprises (PEs) partly or wholly to the private investors.
- iv. **Privatization by Liberalisation of Trade and Business:** Liberalization, infact, is the distinguished form of privatization which may be in the form of relaxing or removing statutory constraints on completion or prices etc.

M.B. Athreya²⁵ has conceptualised four alternative models for privatization, of these four, the first three models are for partial privatization while the four one is for total privatization. These are as follows:

1. Government Majority Enterprise (GME, 51% plus).
2. Government Controlled Enterprise (GCE, 26%-49%).
3. Joint Sector Enterprise (26% + 25% + 49%) and
4. Private Enterprise, (PE).

In the first step, it could be started with 20 to 30 per cent public as well as Financial Institutions leading to 51 per cent government holding or more. This may be called a government majority enterprise.

Secondly, even 51 per cent simple majority equity ownership for control is an outdated concept. There has been increasing divorce of "Professional Management" from "Control". When share holding is wide spread, 26 per cent of equity is quite adequate for control. Under the companies act, with 26 per cent equity, government can exercise veto on all special resolutions at any AGM. This may be called a government controlled Enterprise.

Thirdly, this is partly similar to GCE, but only to the extent that the government holding here also is 26 per cent. But in the balance 74 per cent, 25 per cent may be given to one 'partner'. This partner could be a successful well-managed private firm. The operational management could be left with the Private Partne. Government will have control will benefit from the profitability and share value appreciation.

Fourthly, private sector- it would be inaccurate to call any of three previous alternatives - 51 per cent or 26 per cent or JS - as privatization. The only situation which can be called "Privatization" is where 100 per cent of ownership is in non-governmental hands.

According to Theo Thie Mieyer ²⁶, there are different connotations

on privatization, such as:

1. Transfer (sale) of public assets (firms, part of firms, partial privatization, or individual assets) to private persons.
2. Transition to private law legal forms.
3. Transfer of individual public supply tasks to private persons (e.g. contracting out), also functional privatization.
4. Transition to private business management in the sense of profit oriented management.
5. Extension of the margin of autonomy for the management of public enterprises.
6. Debureaucratization, in the sense of freeing from formal provisions administrative instructions.
7. Decentralization, in the sense of the delegation of authority to decide, plan and act.
8. Aligning the conditions under which public enterprises act on those which apply to private firms.
9. Promotion of competition by market processes (or market-like systems of incentives).
10. Dismantling of such state monopolies as are justified by referring to the traditional argument of 'natural monopoly.
11. Adaptation of wages and working and employment conditions to those applicable to the private sector: Privatization of Jobs.
12. Unilateral reduction of the nature and scope of public services.
13. Privatization of public resources.
14. Privatization of public revenue: Conversion of revenues from public investments into private profits; or private access to public capital and its revenues.
15. Denationalization - Pressures of international competitions; increasing activity in foreign markets; take over a capital shares and rights of disposal by foreigners.

The term privatization can be defined from two points of view - first, at the economy level (i.e. Macro view and second, at the enterprise level

(i.e. Micro view).

Privatization of economy level implies the following traits :

1. The expansion of public enterprise is discouraged.
2. The growth and development of Public Sector Enterprises in the economy is checked and thus allowed to expand at slower rate, and
3. The activities of public enterprises in the economy is reduced so that the private sector may avail opportunity to expand.

3.4 Privatization - Micro Dimensions :

The micro dimension of privatization is as follows.²⁷

1. Ownership measures.
2. Organization measures.
3. Operational measures.

1. **Ownership Measures:** It is an important measure of privatizing the State Owned Enterprises. Ownership measure implies denationalization, joint venture and liquidation. Denationalization may be legal or partial. Legal denationalization refers to the transfer of majority ownership rights and benefits alongwith control on management. Partial denationalization means transfer of ownership to private parties upto 49 per cent and thereby the majority ownership remain with the public sector enterprises maintaining control on the management. However, denationalization implies three categories as :

- (i) **Management Buy-out:** It means that the sale of assets to the employee or management or to both of the organisation i.e. managers or employees or both together buy the majority share holdings in a company.
- (ii) **Co-operative** means an organization which belongs to employees which must have distinctive legal features of a cooperative society that can buys the assets of the enterprise.
- (iii) **Special Share:** Here government retains some shares under the arrangements that it undertakes not to participate activity in the management process rather it holds a power to protect in case of undesirable share concentration dragging of companies property illegally or any other extreme circumstances.

- (iv) **Joint Venture:** Joint venture denotes that private capital may be introduced in a public enterprise either through a sale of some government equity or in the course of its expansion.
- (v) **Liquidation:** Liquidation means sale of the assets to some one that uses them again in the same activity or moves them away from their erstwhile activity. This occurs in the financial failure of the enterprise.

2. **Organizational Measures:** Organizational measures have five dimensions which are:

- (i). **Changes in Holding Company Structure:** It means government reduces its control to the operation of the company and then a company is allowed to run its function under a high degree of market discipline.
- (ii) **Changes Within Monolithic Structures:** A monolithic organization can be changed into two forms: firstly, it may be broken into smaller units without loss of scale of economies; and secondly, the major product lines or regional operations may be converted into independent companies and they are also allowed to stay in the same organization.
- (iii) **Leasing:** A public enterprise can be privatized gradually, by the method of leasing out large amount of its assets to the best bidders and the bidders will enjoy profits as per agreement.
- (iv) **Competition:** Promotion of competition is obvious importance in ensuring results of improved efficiency, lower cost structures and declining prices.²⁸ This would be possible by three ways, such as:
 - a. By breaking big public enterprise into less big units which have a reasonable chance of competing with one another.
 - b. By deregulating the activities in a given sector, thereby improving the prospects of entry and exit.²⁹
 - c. By improving condition of internal competition within a large public enterprise organization.
- (v) **Restructuring:** It means reforming of the organisation. It may be done in two ways, as financial restructuring and functional or basic restructuring.

3. **Operational Measure:** It is very important and meaningful measures of privatization which is appropriate for both planned and mixed economy. It has seven dimensions:

- (i) **Contracting out:** Here the government bears the cost of providing the service and the right to produce and sell the service under contract with the government is given to a private firm selected on the basis of competitive bidding.
- (ii) **Rewards/incentives:** Rewards is the acceptance of one's best works. So, it helps to accelerate the improvement of efficiency of the organization. Both shop-floor employees and managerial personnel should be provided rewards.
- (iii) **Investment Criteria:** There should be the same investment criteria for both public and private enterprises.
- (iv) **Pricing Principles:** Every competitive industry uses to settle the price at the level of costs and tries to minimize the price discrimination. Private sector enterprises follow this way for long time with a view to capturing the monopoly situation. In case of public enterprise, the situation is reverse. So, pricing principles should be the same for both the public and private enterprises.
- (v) **Targets:** Target setting is an alternative approach of privatization. There should be a target of manager's particular activities that must be attained and necessary incentive should also be provided to them for successful managers.
- (vi) **Resort to Capital Market:** A public enterprise should move to capital market for its capital funds as private sector does. It can be able to attract the funds if only the investors think that the purpose of the project will be worthwhile. This measure would make the public enterprise fittest in the market discipline which is a major virtue in the case of private enterprise.
- (vii) **Rationalization of Government Control:** There is a burning question of a reform of the system of government control over public enterprise. Government should rationalise its control over the public enterprise and should provide managerial autonomy. It should be considered as a 'fresh air' which can be breathed by the public enterprise's managers.

The micro economic measures of privatization is shown in chart - 1. Privatization is transfer of ownership and control of State Owned Enterprises (SOEs) to the private sector through sale of assets. The main objective of privatization is to transfer ownership and control of economic activities from the public sector to the private sector market. 'The market sector is based on competition, voluntary transactions, and private property rights'³⁰.

'Voluntary transactions or contracts, involve two or more parties engaging in economic activities without having to receive permission from someone else'.³¹ Again, 'private property - the rights belonging to the possessor are usually defined as the rights of an individual to decide how to use an asset and to transfer his rights to some one else'.³² So, ' privatization in its fullest sense, therefore, requires a change of ownership'.³³ But this may not be enough. Additional measures may be necessary to ensure that an activity which is transferred to the private sector changes its behaviour accordingly. So ' transfer should be supplemented by other means which add to competition'.³⁴

In the socialist countries or the centrally planned economies, it has come to the extent that in the individualisation ' of economic activity - i.e. allowing individuals to own and control certain forms of economic activities'³⁵ China, Hungary are the best example of this form.

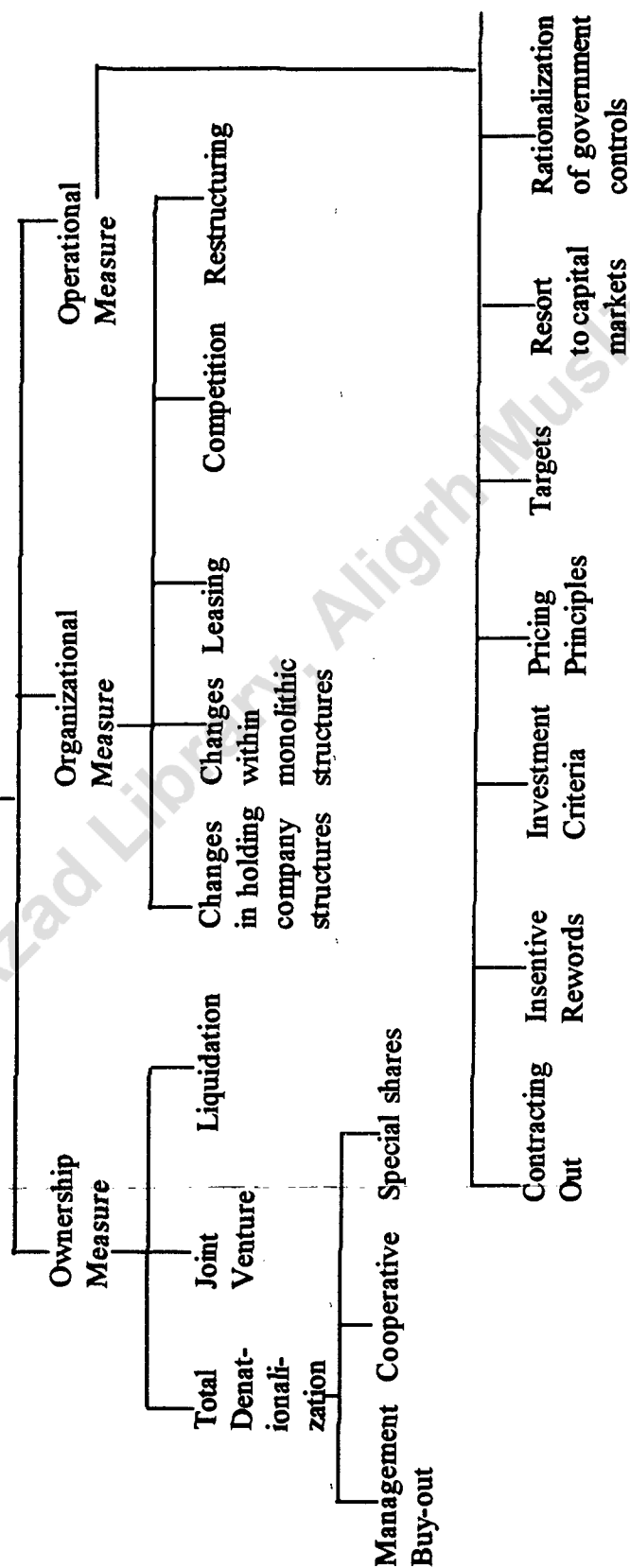
In the LDC's there have been a mixture of different techniques followed in privatization. There have been cases of divestitures of the type similar to that carried out in the industrialised countries.³⁶ Singapore, Malaysia, Thailand, Japan are being privatized by the sale of stock to the public. Besides divestiture i.e. sale of equity there is a common form of privatization in the LDC's, i.e. reprivatization of the government owned enterprises. Bangladesh, Chile are the best example. At present Bangladesh is following two methods of privatizing SOEs.³⁷

- (a) **Sale by International Tender:** Local, foreign private buyers may participate in all such tenders. Association of workers, employees and officers of the tendered enterprise may also offer bid for purchase of the enterprise.
- (b) **Sale by Offer of Shares:** Government owned shares in different companies and shares of the SOEs converted into public limited company may be sold to the general public either directly or through the Stock Exchange.

CHART - 1

PRIVATIZATION IN MICRO DIMENSION

PRIVATIZATION



SOURCE: Ramanadham, V.V. (ed.) "Privatization of Developing Countries", Routledge, London, 1989, p. 5.

3.5 Conclusion:

From the foregoing analysis of the definition of privatization, it has been rightly realised by the economists, planners and the governments alike the world over that privatization is now the key to success in attaining enhanced efficiency, increased profitability and improved productivity. So, many countries have adopted vigorous reform programmes of privatization of public enterprises.

Various methods of privatization are being used for transferring public enterprises to private sector. However, the significant methods of privatization process are divestiture, denationalization, deregulation, dilution of public ownership, sale of public assets to private sector, sale of shares, transfer of management and control to the private party, management buy-out etc.

In Bangladesh, the privatization process which is currently followed includes denationalization, the sale of entire enterprise through tender to the local or foreign buyers, sale of shares to the general public, employees or workers directly or through stock exchange.

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33. Ibid.
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37. *'Privatization Policy'*, Privatization Board, Government of the Peoples Republic of Bangladesh, 1994, p.2.

CHAPTER - IV

RATIONALE OF PRIVATIZING STATE-OWNED ENTERPRISES (SOEs) IN BANGLADESH

In the previous chapter, an in-depth incisive conceptual analysis of privatization in its wider connotation and ramification was presented. The present chapter deals with the rationale of privatizing State Owned Enterprises (SOEs) in Bangladesh. A comparison has also been made as regards the performance of public and private sector enterprises. The subject matter of this chapter has been arranged in the following manner:

- 4.1 Introduction.
 - 4.2 Size Of Public Enterprises.
 - 4.3 Evaluation Of State-Owned Enterprises (SOEs) Performance.
 - 4.4 Performance Appraisal Of Public And Private Sectors - A Comparative Analysis.
 - 4.5 Problems Of State Owned Enterprises (SOEs).
 - 4.6 Move Of Privatization-A Step Towards Market Economy.
 - 4.7 Privatization And Its Effects On Savings And Investments.
 - 4.8 Conclusion.
- References.

4.1 Introduction:

Free economic system in the current decade has been accepted widely for the best use of utilization and expansion of the world's scarce resources. Liberalisation therefore has become the primary precondition to competing successfully in the global markets and as such growing reliance is laid on the private sector capabilities for national economic development.

Hence, against this back-drop, Bangladesh has been striving for higher levels of economic growth making a strong and capable private sector to play a dynamic role under a free and vigorous economic system which is an imperative need of the day. But as ill luck would have it, the state sector is still predominant in the economy which could not bring any fruitful result due to a variety of reasons such as, recurring heavy losses, escalating costs, declining productivity etc. Under these circumstances, there is no way out except transformation of country's policy frameworks towards free economy by taking reform programme of privatization for arresting rampant dissipation of the nation's scarce resources by the public sector enterprises.

4.2 Size Of Public Enterprises:

Public Sector's growth during the post liberation period (1971-1975) was spectacular. Two factors had been predominantly responsible for this. The government had to take possessions of business abandoned by the Pakistani owners, and the government itself had a political commitment towards creation of dominant public sectors in the country.

The objectives of the public sector enterprises were as follows¹:

- i. To create conditions to emancipate the toiling masses from all forces of exploitation.
- ii. Every citizen is to enjoy the right to work.
- iii. All citizen are to be assured equal opportunity.
- iv. Mobilization of resources through generation of surplus for expansion of investment for development.
- v. Reduction of inequitable distribution of income and opportunities, both interpersonal and interregional, through appropriate choice of product and technology by creation of productive employment and building of social overhead capital.
- vi. Reduction of poverty.

- vii. There will be limits to private ownership of means of production as prescribed by law.
- viii. Achieving self reliance through proper mobilization of productive resources and balanced development of related sectors of the economy and
- ix. Socialist transformation of the economy through increased ownership and control of the means of production and changes in the institutional framework etc.

But over the passage of time it was found that the performances of State Owned Enterprises (SOEs) were not satisfactory. They were continuously running into losses. The continued increased losses of these SOEs exerted heavy pressure on the country's fiscal situation which was cumulating over time. "In 1992-93 SOEs losses had swollen to TK. 20 billion (US \$ 500 million) which represents about 45 per cent of annual project aid disbursement and 2 per cent of GDP². If these losses would have been somehow stopped, Bangladesh could, for instance, "finance from its own resources a Jamuna Multipurpose Bridge Project in every 18 months"³.

In 1975 there was a political change by over-throwing the then government and this change brought about a change in the attitude towards public sector as well as nationalised industries i.e. State - Owned Enterprises (SOEs).

In 1976, government realising failure of the public sector in the economy, discarded the socialist approach and adopted new policy of denationalization of public enterprises. Since then, the policy of disinvestment and denationalization have been continuing.

During the period (1975-81), the government decided to retain 18 categories of public sector undertakings under its control, where 10 categories had opportunity of 51 per cent government holding and 49 per cent private shares.⁴ The eight categories reserved for public sector were:⁵

- i. Arms, ammunition and allied defence equipment.
- ii. Atomic energy.
- iii. Jute (sacking, hessian and carpet backing).
- iv. Textiles (excluding handlooms and specialised textiles).
- v. Sugar.
- vi. Air transport.
- vii. Telephone, telephone cables, telegraph and wireless apparatus.
- viii. Generation and distribution of electricity.

TABLE - 1
ESTIMATION OF NETWORTH OF SOEs
(As at 31.12.92)

SOEs	Lower Limit US\$ million	Upper Limit US\$ million
1. Bangladesh Power Development Board	800	1150
2. Bangladesh Telegraph & Telephone Board (BTTB)	500	700
3. Petrobangla	100	150
4. Chittagong Port Authority	100	150
5. Bangladesh Petroleum Corporation	100	120
6. Rural Electrification Board	50	100
7. Zia Fertilizer Factory	50	90
8. Chittagong Fertilizer Factory	50	75
9. Sonali Bank	25	75
10. Bangladesh Biman	25	70
	1800	2680
Textile Mills Corporation	10	60
Steel Engineering Corporation	10	40
Sugar & Food Industries Corporation	10	40
Chemical Industries Corporation	20	100
Bangladesh Forest Industries	Nil	Nil
Bangladesh Jute Mills Corporation	Nil	Nil
Other Utilities and Infrastructure	400	500
Other Financial Institutions	20	100
Other (mainly transportation)	30	100
	2300	3620

- Note:** 1. Redundancy payments will reduce GOB's proceeds from privatization.
2. Negative-networth companies valued at Nil.
3. Chemical Industries Corporations figure excludes Zia and Chittagong Fertilizer Factories.

Source: Staff Financial Analysis, World Bank, Report No. 12318-BD: "Bangladesh: Privatization and Adjustment", 1994, p. 69.

At present Bangladesh has 'about 225 public enterprises in operation'.⁶ They range from manufacturing enterprises, such as, textile mills, steel and engineering mills, chemicals industries and jute mills to enterprises dealing with utility and infrastructural facilities, such as, power, gas, transport and telecommunication, and enterprises engaged in transportation, banking, construction and trade. However, 'the largest number of SOEs, i.e. 154 are in the manufacturing sector.'⁷ There are also four large commercial banks, two insurance corporations, one agricultural bank and three development financial institutions (DFIs) in the public sector.

Table - 1 shows the potential net worth of SOEs. It is seen from the table that the networth of SOEs stands at US \$ 3.6 billion in 1992 which is about 15 per cent of the nation's GDP. This amount represents the upper limit of the networth of the SOEs in Bangladesh. It is also noticed that the lower limit is around US \$ 2.3 billion. Table further reveals that the utility and infrastructure sectors have been dominating shares in terms of assets. In fact, out of the total number of SOEs under reference, two SOEs i.e. The Bangladesh Power Development Board (BPDB) and Bangladesh Telegraph and Telephone Board (BTTB) represent 51 per cent of the aggregate networth.

4.3 Evaluation of State Owned Enterprises (SOEs) Performances:

The sectors where State Owned Enterprises (SOEs) are dominant include manufacturing, utility services, constructions, trade and agriculture. In the following paragraphs an appraisal of the performance of major State - Owned Enterprises (SOEs) have been presented.

Table - 2 presents analysis as regards the contribution of SOEs to GDP for the year 1993-94. It is seen from the table that SOEs seem to be reeling under frustration and disappointments. With net worth of 15 per cent of the country's GDP, it contributes only around 6 per cent. GDP is lower in agriculture, trade and services, which is nearly 0.1 per cent and 7 per cent respectively. In industry sector, it is 7.50 per cent. Shares of the SOEs in the country's GDP is very Low because agriculture, trade and services which account for over two thirds of GDP, are predominantly in the private sector.

Most of the SOEs have long been incurring losses and thereby exerting heavy pressures on the exchequer, public finance, the banking sector, the private sector and overall growth prospects of the nation. So, instead of contributing to the GDP, SOEs itself chunking large amounts from the national budget.

TABLE - 2

**BANGLADESH : CONTRIBUTION OF PUBLIC SECTOR
ENTERPRISES TO GDP, 1993-94**

Sectors	Contribution to GDP(Tk.million)	Contribution of of PSEs (Tk.million)	% of Contribution of PSEs
1. Agriculture:	314945	294	0.08
i. Crops	197258	259	
ii. Forestry	33957	Included in Manufacturing	
iii. Live Stock	35325		
iv. Fisheries	48405	57	
2. Industry:	286575	21505	7.50
i. Mining & Quarrying	190		
ii. Manufacturing:	102822		
a. Large Scale	66078	11399	
b. Small Scale	36744		
iii. Construction	60134	177	
iv. Power, Gas, Water & Sanitary Services	20607	9929	
3. Services:	536766	33170	6.18
i. Transport	129221	3084	
ii. Trade Service	82213	6880	
iii. Housing Service	96837	143	
iv. Public Administration & defence	55148	7185	
v. Banking and Insurance	21395	14768	
vi. Professional and miscellaneous Services	151952	1110	
4. GDP at Market Prices	1035464	54969	5.31

Note: Included in Public administration

Source: (i) Statistical Pocket Book of Bangladesh, Bangladesh Bureau of Statistics, 1994, p. 237.

(ii) World Bank report No. 12318 BD; " Bangladesh Privatization and Adjustment", 1994, p. 3.

Table - 3, shows the profits and losses of some major manufacturing SOEs during 1984-85 - 1993-94. It is discernible from the table that most of the SOEs have incurred losses continuously. Table further reveals that BSEC has incurred losses to the tune of TK 13.5 crore in 1984-85 which increased to Tk 100 crore in 1992-93 and then declined to Tk80.4 crore in 1993-94. Same thing has occurred in case of BSFIC, though it has earned profits of Tk 16.4 crore in 1989-90, however, it has incurred losses in all the years during the period under reference. BCIC has earned profits for two years i.e. from 1984-85 to 1985-86. Then it incurred losses to the tune of Tk 8.6 crore in 1986-87.

Right from 1991 the losses are prominent, Tk 54.8 crore in 1991-92 and Tk 6.6 crore in 1992-93 which increased to Tk22.7 crore in 1993-94. The same situation is observed regarding BTMC and BJMC. Both are losing concern. Though BTMC earned profits for the financial year of 1984-85, but after then it has been incurring losses continuously which was of the order of Tk 56.6 crore in 1985-86, Tk 95.9 crore in 1992-93 and Tk 116.6 crore in 1993-94. BJMC has incurred losses in all the years during the period under review, i.e. it incurred losses to the tune of Tk 146.6 crore in 1984-85 that reached Tk 367.9 crore in 1992-93 and then decreased in 1993-94 to the amount of Tk 58.7 crore.

Table -4 shows the profits and losses of SOEs in utilities during 1984-85-1993-94. It is observed from the table that majority of the enterprises are losing concern except BPC. BPC has earned profits to the tune of the Tk 181.7 crore in 1984-85 which increased to Tk 313.4 crore and Tk 441.7 crore in 1992-93 and 1993-94 respectively. The profitability trends of BOGMC continued to fluctuate during the period as it earned profits for the year 1984-85. Then it incurred losses for immediate two financial years i.e. 1985-86 and 1986-87. In 1987-88 it earned profits to the tune of Tk 9.5 crore. The years 1988-89 and '89-90 were again the years of losses of the order of Tk 19.1 crore and Tk 27.2 crore respectively. However, from 1990-91 onward it has become a profitable concern. BSC has earned profit of Tk0.5 crore, Tk3.7 crore, Tk 3.8 crore and Tk 3.4 crore in the years 1984-85, 1987-88, 1992-93 and 1993-94 respectively. Whereas, the other years under reference showed losses of Tk11.7 crore, Tk10.1 crore in 1985-86 and 1986-87. Tk24.5 crore, Tk52.7 crore and Tk 3.8 crore in the years 1989-90 to 1991-92. BIMAN is also one of the giants corporation in SOEs. The profitability profile of BIMAN is also wavering during the period under review. It is observed from the table that out of the total ten years of performance profile, only five years are profitable years while the remaining period represents huge losses to the order of Tk 2.3 crore in 1984-85 as minimum and the highest amount of losses being Tk 40.0 crore in 1990-91.

TABLE - 3

**PROFITS AND LOSSES OF MAJOR STATE OWNED ENTERPRISES CORPORATIONS
(MANUFACTURING) DURING 1984-85 - 1993-94**
(Tk in Crore)

Corporations	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
BSEC	(-)13.5	(-)8.5	(-)4.9	(-)6.2	(-)7.8	(-)36.5	(-)86.1	(-)106.9	(-)100.0	(-)80.4
BSFIC	(-)23.4	(-)33.6	(-)31.5	(-)9.5	(-)25.5	16.4	(-)12.9	(-)69.2	(-)92.4	(-)65.0
BCIC	13.1	10.5	(-)8.6	19.8	37.4	45.5	34.3	(-)54.8	(-)6.6	(-)22.7
BTMC	4.2	(-)56.6	(-)24.5	(-)35.4	(-)2.2	(-)17.5	(-)57.4	(-)43.4	(-)95.9	(-)116.6
BJMC	(-)146.2	(-)158.3	(-)42.0	(-)143.1	(-)188.2	(-)370.9	(-)247.3	(-)312.2	(-)367.9	(-)58.7

Source : 1. Compiled and computed from World Bank Report No. 127224 BD, 1994, p. 204.

2. Data for the year 1993-94 have been derived from Autonomous Bodies Wing, Ministry of Finance, Government of Bangladesh.

TABLE - 4

**PROFITS AND LOSSES OF MAJOR STATE OWNED ENTERPRISES CORPORATIONS
(UTILITIES) DURING 1984-85 - 1993-94 (TK. in Crore)**

Corporations	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
BPC	181.7	105.1	147.3	93.8	127.3	36.9	249.2	351.2	313.4	441.7
BOGMC	10.7	(-)2.9	(-)7.1	9.5	(-)19.1	(-)27.2	30.2	63.2	64.8	72.10
BSC	0.5	(-)11.7	(-)10.1	3.7	(-)24.5	(-)24.4	(-)52.7	38.3	3.8	3.4
BIMAN	(-)2.3	(-)5.7	(-)35.2	(-)26.6	3.3	11.7	(-)40.0	26.4	19.4	50.7
PDB	19.9	(-)28.5	17.2	(-)8.7	65.2	(-)337.5	(-)280.2	(-)774.8	(-)784.8	(-)555.1
DESA	0	0	0	0	0	0	0	(-)85.3	(-)84.2	86.60
DWASA	0	(-)1.0	2.0	1.4	1.9	1.6	0.4	0.5	0.7	32.3
CWASA	5.0	(-)2.0	6.0	(-)2.0	31.0	(-)63.0	(-)64.0	(-)57.0	(-)45.0	0.9

Source : 1. Compiled and computed from "World Bank Report No.127224 BD, 1994, p. 204.

2. Data for the year 1993-94 have been derived from Autonomous Bodies Wing, Ministry of Finance, Government of Bangladesh.

TABLE - 5

**PROFITS AND LOSSES OF MAJOR STATE OWNED ENTERPRISES CORPORATIONS
(SERVICES) DURING 1984-85 - 1993-94 (TK. in Crore)**

Corporations	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
BRTC	(-)13.3	(-)0.8	(-)18.2	(-)22.6	(-)23.7	(-)25.8	(-)24.6	(-)23.8	(-)29.8	(-)13.4
BIWTC	(-)1.1	(-)4.5	(-)5.5	(-)5.3	(-)7.8	(-)3.7	(-)3.7	(-)5.9	(-)4.7	(-)5.4
EPZA	(-)0.9	(-)1.0	(-)0.8	0.1	0.3	(-)1.2	0	1.5	1.7	1.0
BSCIC	(-)0.5	0	0	0	0	0.1	0.1	(-)0.6	(-)0.7	0.7
BIWTA	1.9	(-)5.2	(-)4.8	(-)0.5	(-)0.1	(-)2.1	(-)3.1	(-)0.9	(-)2.4	1.1
REB	0	0	0	0	0	3.1	7.9	10.9	18.7	18.4
BPRC	2.0	1.6	0.4	3.0	1.3	1.3	1.0	0.9	1.3	2.0
BSB	(-)0.1	(-)0.2	(-)0.2	0	(-)0.1	0.1	(-)0.2	(-)0.2	(-)0.7	(-)0.6
BHB	0	0	0.2	0	0	(-)0.2	(-)0.5	(-)0.4	0	0

Source :

1. Compiled and computed from World Bank Report No.127224 BD, 1994, p. 204.
2. Data for the year 1993-94 have been derived from Autonomous Bodies Wing, Ministry of Finance, Government of Bangladesh.

TABLE - 6

**PROFITS AND LOSSES OF MAJOR STATE OWNED ENTERPRISES CORPORATIONS
(TRADE, AGRICULTURE AND CONSTRUCTION) DURING 1984-85 - 1993-94**

(Tk. in Crore)

Corporations	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
BJC ₁	(-)44.4	(-)162.3	(-)11.8	(-)182.1	(-)147.7	(-)132.4	(-)144.2	(-)167.5	(-)217.8	(-)7.5
TCB	1.1	2.4	4.7	4.1	4.5	3.4	1.6	2.2	0.5	9.3
BADC	(-)17.6	5.6	4.6	7.8	15.2	13.3	7.8	(-)10.5	(-)22.1	(-)2.0
BFDC	(-)2.5	(-)1.7	0.3	(-)1.8	(-)2.8	1.2	(-)1.5	0	(-)0.6	0.6
CDA	0.4	(-)0.4	2.8	4.2	8.9	7.1	4.9	2.0	0.7	2.2
RAJUK	7.8	9.2	13.3	0	0	7.9	7.5	13.0	5.7	15.7
KDA	2.0	0.2	0.4	(-)0.1	1.5	1.1	1.4	0.8	0.6	0.6

1: BJC was closed in FY 1993.

Source :

1. Compiled and computed from World Bank Report No 127224 BD, 1994, p. 204.
2. Data for the year 1993-94 have been derived from Autonomous Bodies Wing, Ministry of Finance, Government of Bangladesh.

PDB, the other SOEs in utilities has also the similar fluctuating trends of profitability profile. On the contrary, DESA is a losing concern right from the beginning from the year 1991-92. DWASA, however, shows an encouraging trend earning profits in all the years except in 1985-86 where there was a loss of only Tk 1.0 crore. CWASA's performance is quite discouraging as it has earned profits in only two years i.e. 1984-85 and 1993-94 while in other years under review surmounting losses have been registered.

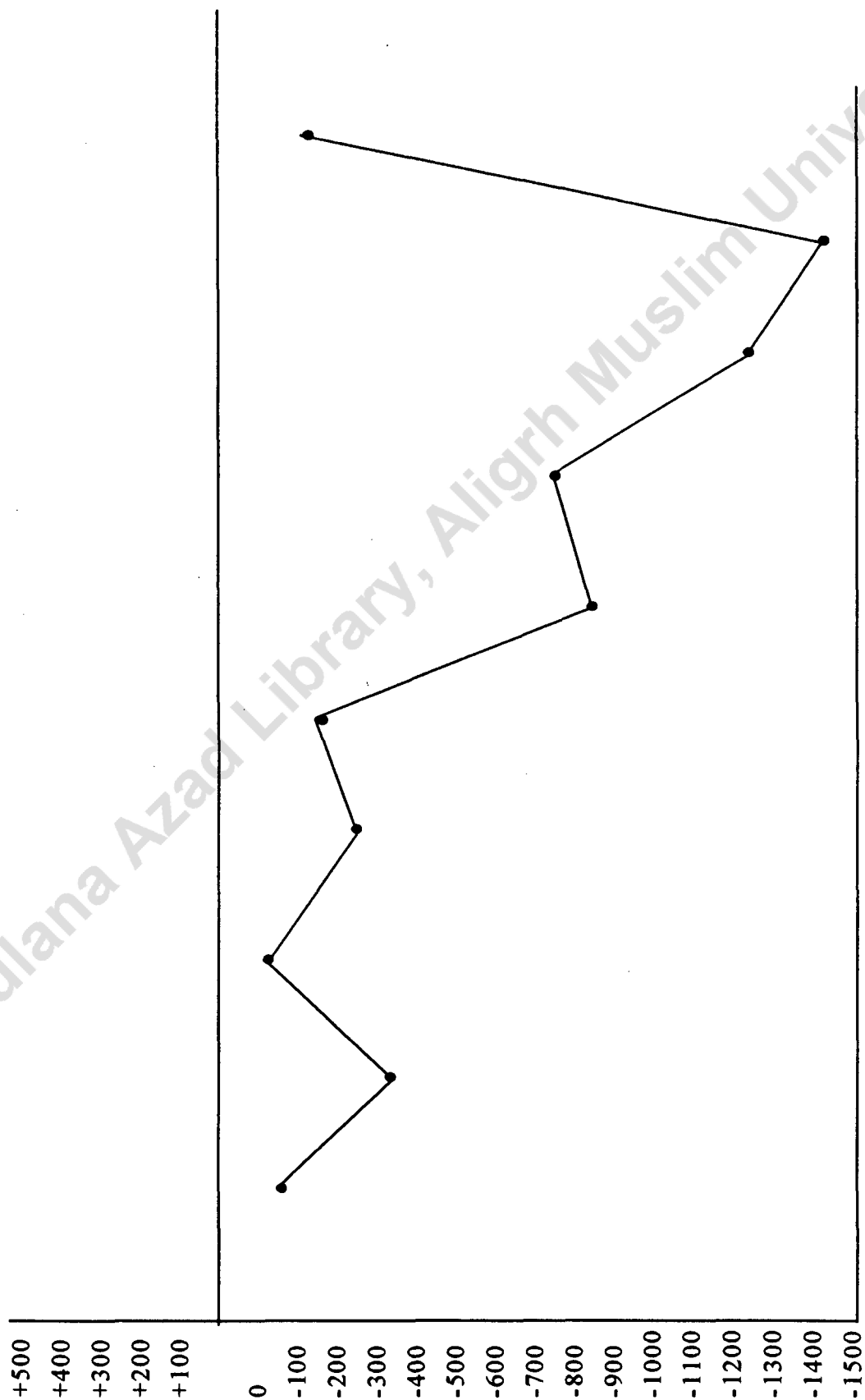
Data set out in table 5 reveals that almost all the enterprises in service sector are losing concern. BRTC is a permanent losing concern. It has incurred losses in all the years during the period under review. Same thing has been witnessed in case of BIWTC. EPZA has incurred losses for four years i.e. from 1984-85 to 1989-90 while in other years it has earned profits. Table further indicates that BSCIC has incurred losses in almost all the years under reference except three years i.e. 1989-90, 1990-91 and 1993-94. Almost the same situation is observed in case of BIWTA that has incurred losses in all the years under review except 1984-85 and 1993-94. Though REB has neither earned profits nor incurred losses during 1984-85 to 1988-89. Thereafter it has earned profits in all the years under reference, following BSB and BHB, both are losing concern. BPRC is a profitable concern.

Table - 6 shows profits and losses of major SOEs in trade, agriculture and construction sector. It is discernible from the table that BJC is the largest losing concern. It has incurred losses in all the years during the period under review i.e. Tk. 44.4 crore in 1984-85 which went upto Tk217.8 crore in 1992-93. But then in the year 1993-94, the amount of losses decreased to Tk 7.5 crore. TCB and BADC are the profitable concern while on the contrary, KDA and BFDC are losing concerns.

It has been observed from the foregoing analysis that most of the SOEs under reference have shown increasing trends of losses. The biggest losers are the Bangladesh Power Development Board (Tk 555.1 crore) and Bangladesh Textile Mills Corporations (Tk116.6 crore), Dhaka Electric Supply Authority (Tk84.2 crore) and Bangladesh Steel and Engineering Corporations (Tk 80 crore), Bangladesh Sugar and Food Industries Corporations (Tk 65.0 crore), and Bangladesh Jute Manufacturing Corporation (Tk 58.7 crore) during the period under review. The profitability trends of all the SOEs totalling 29 have also been graphically projected in graph number 1.

It may be inferred from the foregoing tabular analysis and graph that the financial performance of the SOEs has been widely wavering for the period under review. The main reasons for lack luster performance are attributable to 'lack of direction and autonomy, poor management, low productivity, rapid real wage growth, revenue pilferage, low prices and rapid

GRAPH NO. 1
PROFITABILITY PROFILE OF 29 SOEs FOR 1984-85 TO 1993-94



built-up debt service obligations.⁸ The losses registered by the SOEs are regularly covered by the government directly through capital infusions or indirectly through write-offs of banking credits.

Table 7 presents a detailed analysis as regards the financial condition of 39 non financial SOEs corporations during the period 1991 to 1993. It is noticed from the table that operating profits (before interest and taxes) have declining trends i.e. Tk 787 crore, Tk 673.10 and Tk 557.51 crore in the years 1991, 1992 and 1993 respectively and after charges of interests and income tax, it showed net losses increasing rapidly, that is TK 674.96 crore, Tk 952.10 crore and Tk1141.48 crore in the years 1991, 1992 and 1993 respectively. It is interesting to note that the SOEs have negative net working capital because of incurring huge losses during the period under reference. Equities in regard to investment are 23.5, 25.8 and 22.2 per cent in 1991, 1992 and 1993 respectively. Debt-equity ratio is as high as 75:25 indicating that the debt is higher than equity.

The SOEs were funded by borrowing from the banking sector and government guarantees. This in turn created a vicious cycle in which SOEs losses have put a question of the viability of the banking system. In 1994, the accumulated debt of the SOEs stood at a staggering Tk47 billion. These loans, in turn, threatened the financial viability of the Nationalized Commercial Banks (NCBs) due to the non-repayment of interest alongwith the principal amount. This suggests that the government realised little or negligible amount as interest payments on funds provided for investment in SOEs. There were also delayed payments of taxes and duties to the government by the SOEs.

4.4 Performance Appraisal Of Public And Private Sector - A Comparative Analysis:

In this section, a comparative analysis has been presented regarding performance appraisal of public and private sector enterprises in terms of profitability, fixed assets, value added, labour productivity and over-staffing etc.

In table - 8, a comparison has been made regarding the financial profitability of 121 private and 159 public manufacturing enterprises during 1989-91. It is noticeable from the table that the profits of 159 SOEs are 43 per cent as compared to 74 per cent of 121 private sector enterprises. It has also been observed that in all the industries under review like Textiles, Engineering, Food and allied activities, Pharmaceuticals and Chemicals etc., Private sector firms have gained higher production and have earned higher profits than public sector firms.

TABLE - 7
FINANCIAL PERFORMANCE OF SOEs CORPORATIONS
(FY 1991-93)
(Tk in crore)

	1990-91	1991-92	1992-93
Operating income before interests and Taxes	787.08	673.16	55.51
Interest expense	1076.48	1096.58	1211.97
Income Tax	385.56	528.68	487.02
Net Profit/Loss	(-)674.96	(-)952.10	(-)1141.48
Dividend	248.67	347.18	399.88
Depreciation	1080.17	1157.63	1228.92
New Investment	4233.89	3281.87	2758.26
Total Investment	41832.67	49772.73	52825.17
Equity	9852.39	12858.13	11759.16
Debt	31980.28	36914.60	41066.01
Equity/Total Investment (%)	23.5	25.8	22.2
Dividend/ Equity(%)	2.5	2.7	3.4
Interest Expense /Debt (%)	3.4	3.0	3.0
Depreciation/New Investment (%)	25.5	25.3	44.6
Growth in total Investment (%)	-	19.00	6.10
Interest & Indirect Taxes etc. paid to GOB	330.24	417.09	623.81
Current Assets	11918.62	12412.08	13648.32
Current Liabilities	12756.32	14055.30	17441.52
Net Working Capital	(-)837.70	(-)1643.22	(-)3793.20

Note : List of SOEs in the Annexure - 1.

Source: "Bangladesh : From Stabilization to Growth," World Bank, Report No. 12724 , BD, 1994, p. 94.

TABLE - 8

**PROFITABILITY OF PRIVATE ENTERPRISES COMPARED WITH
SOEs DURING 1989-91**

Sectors	Private Enterprises			State-Owned Enterprises		
	Total Units	Profitable Units		Total Units	Profitable Units	
		No.	Percent		No.	Percent
Textile	19	10	53	42	9	20
Engineering	16	12	75	20	9	43
Food and Allied Activities	22	13	59	21	10	48
Pharmaceuticals and Chemicals	16	13	81	23	14	61
Miscellaneous	48	41	85	53	26	49
Total	121	89	74	159	68	43

Source : "Bangladesh : Privatization and Adjustment," World Bank Report No. 12318-BD, 1994, p. 19

There are many factors which are responsible for the poor performance of SOEs, such as, weak management, bureaucratic red-tapism, political interference, over expenditure i.e. unlawful money spending etc. However these malaise do not largely exist in the private sector enterprises.

The comparison between public and private sector regarding value added and fixed assets in the manufacturing sectors has been showed in Table - 9. It is clearly observed from the table that private sector firms are doing better than the public sector firms. Only in the food sector, the public sector firms have done well, it has a little bit higher value added per unit of fixed assets than the private sector.

Table - 10(A) shows the comparison of employment between public and private sector during 1980-81 -1989-90, it is seen from the table that the employment in the public sector is much higher than the private sector i.e. higher by 2759 per cent. The same thing is being witnessed in case of all the years under reference. In 1989-90, the average employment was 1371 in the public sector and only 31 in the private sector representing 4323 per cent higher employment rate in public sector than in the private sector. It is however indicative of the fact that the public sector employed much more employees and labours that was not needed. As a result, the government had to pay excess salary and wages which affected profits of the public enterprises.

Table 10(B) shows the comparison between labour productivity under public and private enterprises of jute sectors for the period from 1986-87 to 1993-94. It is discernible from the table that in the public sector enterprises, the number of employees and their outputs are higher than the private sector enterprises, but the rate of productivity is higher in the private sector than the public sector. The average difference of labour productivity over the eight years comes about 18 per cent. The differential percentage also shows the increasing trends of productivity in the private sector.

TABLE - 9

**PUBLIC/PRIVATE SECTOR COMPARISON OF VALUE ADDED AND
FIXED ASSETS IN THE MANUFACTURING SECTOR
(BETWEEN 1989-93).**

(Value in '000' Tk)

Sectors	Total Fixed Assets	Value Added	VA/Fixed Assets	VA/F.A. Higher in
Food Manufacturing				
Government	2466845	2961727	1.20	Government
Private	2364400	2200796	0.93	
Textile Manufacturing				
Government	316466	142568	0.45	Private
Private	646218	557643	0.86	
Paper Products				
Government	2632358	1247887	0.47	Private
Private	991628	987817	1.00	
Industrial Chemicals				
Government	34038711	4402289	0.13	Private
Private	486346	285423	0.59	
Other Chemicals				
Government	6983	45841	6.57	Government
Private	573447	1084314	1.89	
Iron and Steel				
Government	2564587	280385	0.11	Same
Private	1189636	1246103	0.05	
Fabricated Metal Products				
Government	316936	91988	0.29	Private
Private	425826	546162	1.28	
Non Electrical Machinery				
Government	136747	48183	0.35	Private
Private	210525	214009	1.02	

Source: "Report of Bangladesh Census of Manufacturing Industries", Bangladesh Bureau of Statistics, 1994, pp. 91-102.

TABLE - 10(A)

COMPARISON OF EMPLOYMENT BETWEEN PUBLIC AND PRIVATE SECTOR DURING THE YEAR 1980-81 - 1989-90

Year	Average Employment		% of higher employment in public sector than private sector
	Public	Private	
1980-81	1115	39	2759
1981-82	1134	42	2600
1982-83	1085	60	1708
1983-84	1142	64	1684
1984-85	1186	64	1753
1985-86	1252	58	2059
1986-87	1292	60	2053
1987-88	1335	58	2202
1988-89	1081	30	3503
1989-90	1371	31	4323

Source: Compiled and workedout by the Researcher from "The Census of Manufacturing Industries, Bangladesh Bureau of Statistics, 1994, p. 26.

It is further observed that in the private enterprises, the labours are kept under pressure and restrictions. The duties and responsibilities are clearly identified and accordingly they are liable to the higher authority. On the other hand, these things lack in the public enterprises management. Labours do not have any liability for not doing their assigned duties properly. So, their productivity is not as satisfactory as that of private sector.

4.5 Problems Of State - Owned Enterprises (SOEs)

There are so many wide - ranging problems in SOEs. Some of them are lack of autonomy, weak management, over-staffing, abuse of overtime, low prices and tariffs etc. Table - 11 presents a synopsis of the peculiar problems of a few selected SOEs.

TABLE - 10(B)

**COMPARISON OF EMPLOYMENT AND LABOUR PRODUCTIVITY IN PUBLIC AND
PRIVATE JUTE MILLS DURING 1986-87 - 1993-94**

Years	Public Enterprises		Private Sector Enterprises		Private Enterprises	
	No. of				Productivity	
	Employees	Labour Productivity	No of	Labour Productivity	higher than Public	Productivity
(000)	Output	Productivity	Employees	Output	Productivity	Enterprises(%)
	(M.Tons)			(M.Tons)		
1986-87	109	330	57	201	3.56	17.50
1987-88	105	321	48	186	3.87	26.06
1988-89	101	274	50	178	3.53	30.74
1989-90	099	329	54	197	3.67	09.88
1990-91	103	320	51	187	3.66	17.31
1991-92	101	314	50	171	3.39	09.00
1992-93	103	317	53	192	3.59	16.94
1993-94	093	278	43	158	3.63	21.00

Source : Computed by the Researcher from "Bangladesh : Privatization and Adjustment", World Bank Report No. 12318- BD, 1994, p. 149.

TABLE - 11

BANGLADESH : SYNOPSIS OF PROBLEMS OF SELECTED PUBLIC ENTERPRISES

Textile Mills Corp.	Jute Corporation	Chittagong Water and Sewerage Authority	Inland Water Transport Corporation
Low fixed prices, low capacity utilization, competition from smuggled cloth (through garment industry) and of yarn, overstaffing by more than 15%, wage cost absorbed 85% of value added.	Price support operations in the face of stagnant export prices, stock piles increased from 250,000 bales in FY 90 to 915,000 bales in FY 92, commercial bank financing for raw jute purchase reduced to Tk 250 million in FY 92 from Tk 1,500 million earlier	System loss about 50%, problems of water unaccounted for similar to those in PDB, public taps (568 in number) run 24 hours a day functioning as open pipes, accounts receivables 9.8 months of total billings of which half is due from Government and public corporations, tariff levels low, overstaffing by more than 50%.	Outdated fleet, some vessels over 60 years old, high frequency of vessel disasters, fare pilferage and irregularities in collection system, low tariffs
Steel and Engineering Corporation	Oil, Gas and Minerals Corporation	Railway	Biman Airlines
Markets for products drying up, competition from imports and domestic private sector, overstaffing by more than 10%.	Transmission and distribution lines developed but expected demand for gas sale not realized because of slowness in Government approval of projects, projected demand and 1991 is 48 million cubic feet but only 5 million cubic feet commissioned so far, projects chosen on non-economic grounds, heavy interest burden.	Ticketless travel particularly on branch line services, passenger tariffs low, operation of uneconomic routes, inability to compete with private trucks because of poor service and high loss rate and pilferage of cargo moved, protracted delays in wagons, awaiting crossing of Jamuna river, excessive number of workshops, yards and stations, over-staffing by more than 50%.	Two ATP aircraft grounded for 8 months, \$1 million paid by Biman for not taking delivery of their ATP Aircraft, high purchase prices paid, domestic fares underpriced by about 30% heavy debt service obligations.
Jute Mills Corporation	Power Development Board	Shipping Corporation	Road Transport Corporation
Run-down equipment, overpriced raw material (raw jute) but stagnant export prices, restrictions on mill closure and on downsizing of capacity, heavy interest burden (Tk 700 million in FY 92) on commercial bank debts, overstaffing by more than 25%, wage costs represent 166% of value added.	Revenues from 25-30% of power produced lost from collusion between employees and customers (importer billing, illegal connections, incorrect metering, and inadequate collections), high levels of accounts receivables (6.3 months) weak financial management and accounting, and strong trade union opposition reform.	Inefficient operation of fleet, stiff competition from foreign and domestic shipping lines, adverse effects of Gulf war and cyclone, large amounts of account receivables, heavy debt service obligations (Tk. 420 million a year).	Ticketless travel, fare pilferage by crew and staff, operation of uneconomic routes as public service, costs of fuel, wages, tires and spares 25%-75% higher than in private sector, damage to buses during political disturbances.

Source: Bangladesh: Selected Issues in External Competitiveness and Economic Efficiency, World Bank, 1992, p.7.

Besides, there are other problems also. There is no clear cut objective of the SOEs to be achieved. 'The management has never been required to operate in a fully commercial environment and as a result, are inadequately skilled.'⁹ Many SOEs have been managed for production and have not necessarily produced goods in the quality or specifications required by the market place and prices have not always been set up by market, in many cases they have been dictated by the government decree¹⁰. SOEs have various objectives goals instead of specific one and also suffer from frequent changes in direction and are not held liable for failure.

Table 12 produces a survey conducted with SOEs managers in Bangladesh. It is found that SOEs have a multiple objectives. But then it is a

TABLE - 12

SURVEY OF MANUFACTURING SOEs MANAGERS OBJECTIVES

Objectives	Ranking	BCIC	BSEC	BTMC	BSFIC	BFIDC
1. Contributing to national development	1	4	1	1	1	1
2. Providing goods to customers	2	1	2	3	3	3
3. Providing employment	3	3	4	2	6	2
4. Providing Revenue to Government	4	2	3	4	5	4
5. Maximising Profits	5	5	5	5	2	5
6. Developing Local Area	6	6	6	6	-	6

Source: Enterprise survey, ADB TA 1636 in World Bank Report, No. 12318-BD, "Bangladesh: Privatization and Adjustment", 1994, p.16.

matter of dissatisfaction that the objective of profit maximization comes as fifth in the ranking out of the total sixth objectives under reference. Contributing to national development and providing employment have been accorded higher priority by the managers. To sum up it may be said that in the changing business scenario, it is high time that profit

maximization should be the primary objective for SOEs to compete in the global market.

According to a significant study conducted by ADB, the SOEs in Bangladesh are mainly confronted with the following problems¹¹:

- i. At least twenty per cent employees in the 'workers' category are redundant. More dramatically, 54 per cent of the employees in the officers and 'staffs' category are redundant.
- ii. Cost savings associated with eliminating these redundant employees are estimated to be Tk. 1.4 billion, enough to turn 12 loss making companies into profitable ones. This suggests the tremendous scope for improvements in financial turn-around under private ownership or vigorous reform measures.
- iii. There are no clear-cut patterns of overstaffing across corporations. They are all over-staffed. The worst overall case, including all employees (workers and officers) is the Bangladesh Steel and Engineering Corporation. In the case of BSEC, worker overstaffing is greater than 50 per cent for electronics and steel units while officer and staff redundancies approach 81 per cent in the case of transport.
- iv. The largest absolute number of redundant category of employees are the officers and staffs of the sugar producing SOEs. More than 8000 officers (53% of total) are redundant. Bringing this factor into control could potentially save the sugar Corporation TK 0.3 million.
- v. Textiles: The study estimates 19 per cent over-staffing in textile sector. The world Bank estimates is 30 per cent. The comparisons with other countries are even more dramatic. The estimates for European textile mills are 18-20 kg of higher quality product per operator compared to 0.54 kg per operator hour in Bangladesh. This means that European labour productivity is almost forty times higher than that of Bangladesh in textiles.

Better performance of an enterprise depends on human capital, skills and knowledge of management. But unfortunately, Bangladesh is impoverished of these resources. Many experts have come to the conclusion that the 'unsatisfactory performance of public enterprises is not only due to the lack of capital, technology, or other factors of production but also due to the lack of managerial competence and knowledge.'¹² One study reported that 'Bangladesh suffers from the shortage of competent managerial manpower.'¹³

Historically most of the modern industries were owned and managed by the non-Bangali people migrated from India and Pakistan. Due to the

changes in the Geo-political scenario of the subcontinent, most of them left Bangladesh and therefore a vacuum was created in the field of entrepreneurship and management in the industrial sector. Yet another significant study found that in Bangladesh a substantial number of persons holding managerial posts and performing managerial functions are without any management training¹⁴. According to an estimate, in 1974, 'in the nationalized corporations alone there were some 10,000 persons currently requiring some formal management training'.¹⁵ A sample survey of 464 senior, mid level corporate managers suggested that 'many managers in industrial and other sectors suffer from inadequate preparation for the managerial position they now hold'.¹⁶ Another study showed that '27.27 per cent, 33.94 per cent and 41 per cent of the upper, middle and lower level managers respectively do not possess any background of formal technical education and they have not participated in any formal technical training programme'.¹⁷

It is believed that organizational climate is the function of three things, viz. (a) 'the types of relationship in the organization, the basis of power and the extent of participation (b) the attitude and ideologies lie behind, such features and (c) the characteristics of the managers immediate environment'.¹⁸ For the management development, the relationship between the specific Ministry or Agencies of the government and the corporation, the corporation, and the enterprise, the power of various authorities and the extent of participation of employees in the decision making must be cleared. Manager should have autonomy and freedom of decision making in their functional areas. But this kind of atmosphere is not present in case of Bangladesh SOEs. There are at least four layers in the administration of public enterprises. The Minister in charge, the Ministry, The sector corporation and the enterprises. One study revealed that 'from the point of view of control, public enterprises are subject to three types of control namely political control, bureaucratic control and corporate control and subject to three types of decision viz-political, operational and control decision'.¹⁹ There are various factors behind the non-autonomy and dependence of managers working in public enterprises, such as: (i) because of ambiguous relationship between specific ministry and the corporation and between corporation and the enterprises. (ii) Because of political pressures both from government (Party in power) and opposition (through Labour Union) (iii) Because of the bureaucratic tapism.²⁰

Management By Result (MBR), Management by objectives (MBO), Management by exceptions (MBE), Operation Research, Linear Programming, Computers etc. are some of the popular techniques of modern management which help to increase managerial efficiency. At the State Owned Enterprises of Bangladesh, these techniques and tools are almost absent and there is no supportive atmosphere for applying these tools. After liberation, 'labour indiscipline and ineffectiveness of supervisory position due to militant attitude of workers created an unfavourable atmosphere for application of modern

management techniques'.²¹ It has also been observed that 'the young executives trained in the modern management techniques find it difficult to apply their knowledge because of lack of support and appreciation from their superiors who sometimes even oppose any introduction of modern techniques.'²² All these factors have caused hindrances in managing the enterprises well. On the contrary these factors do not exist in private sector enterprises.

From the foregoing analysis, it has been observed that the performance of most of the SOEs are sluggish incurring heavy losses every year. Heavy subsidy from the government exchequer has added fuel to the fire. In fact the damaging effects on the economy due to financial losses of SOEs are four fold:²³ Firstly, it draws away resources from the highest priority poverty alleviation and human resources development programmes of the government of Bangladesh. Secondly: total State Enterprise debts to the State Owned Banks have grown at extremely high levels (Tk 47 billion as at June 1993) that the financial viability of those banks is threatened. Thirdly: the quality of services provided by many SOEs is poor and inadequate because of increasing production cost, goods and services have become uncompetitive in domestic as well as international markets. Fourthly : in sectors where SOEs co-exist with private enterprises, poor performance of SOEs has tended to depress performance of private enterprises as well. It has happened in the banking and jute sectors.

4.6 Move Of Privatization - A Step Towards Market Economy:

Bangladesh is a small country with limited resources and with growing population (more than 2 per cent every year) with per capita income of US \$ 210 only. The economic growth of Bangladesh is hindered due to lack of food, cloth and shelter. According to the World Bank,²⁴ "economic growth at the rate of 6 to 7 per cent in the medium to long run must be achieved just to sustain poverty alleviation. The rate of economic growth can only be achieved by increasing investment by 17 to 19 per cent of GDP from present rate of 11 to 12 per cent. To achieve over all target growth rate of 6 to 7 per cent per annum, agricultural growth must increase to 3 per cent per annum, while manufacturing growth must reach 10 per cent per annum and must grow by 7 per cent per annum". However, this condition seems to have aggravated due to continuous increasing rate of subsidy to the nationalised industries. However, to get rid of huge burden of subsidies and to sort out other economic reasons, the government adopted privatization programme in the country. The following are the significant considerations that influenced the government to initiate the privatization programme:

1. To change the socialistic approach to market friendly approach to fall in line with the changes in global socio-economic milieu.
2. The government has been burdened with the accumulated losses of the State Owned Enterprises.

3. Privatization is only the way to stopping the hemorrhage in public finances in the form of subsidies and diverting more funds towards poverty alleviation and human resources development programmes.
4. It is now maxim that 'private business works more cheaply and efficiently than does the state sector'.²⁵ So, privatization is a must to enhance managerial as well as production efficiency of public enterprises by disinvesting them.
5. In sum as the World Bank experts noted that the rationale of privatization in Bangladesh is based on three inter-related classes of reasons: the positive effects on government's fiscal situation; improvement in the efficiency of enterprises following privatization; and signaling effects that will promote greater investment, and consequently higher growth in the medium term.²⁶
6. To attract foreign direct investment ensuring the sound environment of investment in order to make faster industrialization of the country.
7. To bring about competition in the economy and increase productive efficiency of both public and private enterprises.
8. To increase employment opportunities for the country's large number of unemployed labour force by attracting foreign investors through establishing free market and investment zone.²⁷
9. To relieve from dependence from foreign aid by giving full play to free market forces by disinvesting costly State Owned Enterprises.²⁸
10. One significant study revealed that accelerating privatization is particularly important from atleast four angles:
 - (a) It would provide a clear signal to the private sector that government is committed to leaving the task of manufacturing to private sector investors.
 - (b) It would ensure that the playing field for public and private enterprises would be leveled henceforth.
 - (c) Privatization would create fiscal space for the government to focus its relatively meagre resources on the provision of health, education, infrastructure rather than propping up loss making SOEs.
 - (d) Besides, the very act of privatization expands the private sector and helps to build the necessary critical mass²⁹.

4.7 Privatization And Its Effects on Savings And Investment:

Growth rate will increase when the same level of investment is retained. In privatization whether the investment level will either fall or increase. The answer of this specific issue can be observed from table -13, which represents rate of the savings and investments of both public and private sectors from the period 1984-85 to 1993-94. It is observed from the table that the public investment ratio was higher than the private investment ratio. But from mid 80s onward the condition of savings and investments ratios have been reversed with the decline in public investments ratios. This situation has prevailed with the launching of privatization programme.

When more SOEs will be transferred into private hand, government can reduce its capital transfers for financing capital investments of SOEs. And these money can be invested in the social sectors, particularly in health, population, nutrition and education for ensuring more social well-being. Progress in human development education, health, population and nutrition has been hampered by financial constraints as well as by institutional weakness. Public expenditures in these areas have not grown beyond a mere 2.5 per cent of GDP since the early 1980s.

With the decline of communism in Eastern and Central Europe in 1989, the dominant role of SOEs in the economy began to change. It has given new impetus to the privatization process for economic reform programmes to create the basis for a market economy. Further more, the programme of privatization in a few developing countries has also stimulated Bangladesh to adopt the idea in practice. Further, International Monetary Fund (IMF) and the World Bank's restructural adjustment loans also inevitably came with conditionality clauses promoting the disinvestment of public enterprises.³⁰

Recently, with the signing of the Uruguay Round Of Trade Talks under GATT, Bangladesh has entered into a highly competitive global market and will have to face competition from world wide. To face this competition, it requires technological modernization and quality improvement which is beyond expectation from SOEs. Hence for Bangladesh there is no options out but to resort to effective future privatization programme.

TABLE - 13

**BANGLADESH : SAVINGS AND INVESTMENT AS PERCENT OF
GDP DURING 1984-85 - 1993-94**

Year	Consumption	Gross Domestic Investment		Total Invest-ments	Gross Domestic Savings
		Public	Private		
1984-85	98.4	7.4	5.4	12.8	1.6
1985-86	97.0	6.7	6.0	12.7	3.0
1986-87	96.0	6.3	6.2	12.5	3.2
1987-88	97.4	5.6	6.4	12.0	2.6
1988-89	98.0	5.7	6.5	12.0	2.0
1989-90	98.0	5.7	6.4	12.1	2.0
1990-91	97.0	4.6	5.8	10.4	3.0
1991-92	94.16	5.49	6.63	12.12	3.8
1992-93	93.51	6.22	7.58	13.80	6.49
1993-94	---	6.3	7.9	14.2	7.5

- Source:
1. Statistical Pocket Book, Bangladesh Bureau of Statistics, 1994, p. 224.
 2. Bangladesh Economic Review', Ministry of Finance, Government of Bangladesh, June 1995, p. 17.

4.8 Conclusion:

From the foregoing discussion, it may be observed that most of the State-Owned Enterprises (SOEs) in Bangladesh are losing concern registering heavy losses, so much so that it reached about US \$ 500 million, i.e. 45 per cent of annual aid disbursement of the government in 1994. These SOEs have become white elephants for the government as well as great hindrance towards poverty alleviation and economic development programmes due to chunking out a large amount from the national budget. These loss making SOEs are also damaging the financial viability of nationalised commercial Banks. The biggest white elephants SOEs largely exist in the manufacturing and utility sectors. A big question mark has now been raised as to the very existence of these SOEs before the government.

There was, therefore, no alternative way before the government except privatizing these SOEs in order to arrest the hemorrhage in national finance and making more funds available for poverty alleviation and human resource development programmes. There is also a consensus of opinion among the economists and planners that the privatization would bring about overall

efficiency putting the entire economy on a more sound and efficient footing in general and making privatized SOEs in particular capable enough to be globally competitive.

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CHAPTER - V

PRIVATIZATION PROGRAMMES AND EMERGING ISSUES IN BANGLADESH

The rationale of privatizing State Owned Enterprises (SOEs) in Bangladesh has been discussed in the previous chapter. It specifically focussed on the size of the State-Owned Enterprises (SOEs), financial and physical appraisal of performance vis-a-vis the private sector enterprises. In this chapter, an analysis of the ongoing privatization programmes in Bangladesh by the several successive governments has been discussed at length and at the same time issues emerging out of the implementation of privatization programme critically analysed. The subject matter of this chapter has been presented in the following order:

5.1 Introduction

5.2 Industrial Policies And Privatization.

- a) Industrial Policy Of 1972.
- b) Industrial Policy Of 1975.
- c) Industrial Policy Of 1982.
- d) Industrial Policy Of 1986 And The " 51-49 Plan".
- e) Industrial Policy of 1991.

5.3 Institutional Arrangements For Privatization.

5.4 Disinvestment Scenario Of State-Owned Enterprises (SOEs) In Bangladesh.

- a) Denationalization Of Jute And Textile Mills.
- b) Denationalization Of Banks.
- c) Denationalization Of Abandoned Enterprises.
- d) Sale Of Government Shares in Multinational Companies.

5.5 Emerging Issues Pertaining To Privatization Programme.

5.6 Conclusion.

References.

5.1 Introduction

It is an irony of fate that Bangladesh witnessed a destructive war of liberation in 1971 which resulted into creation of Bangladesh separating from Pakistan. At the time when the country was trying to win liberty from the deadly clutches of Pakistan, industries were ruined primarily on account of the prolonged closure of the industrial activities and secondly, as a result of mass exodus of Pakistani managers, entrepreneurs, owners and skilled labour. There was a crucial mark of interrogation before the newly established Bangladesh government as to how to rehabilitate and revamp the war devastated economy. It was in the wake of this background that numerous policy packages and measures came to be announced in the successive years.

Socio-economic transformation the world over especially in the developing nations also necessitated the introduction of several industrial policies. Yet another significant reason for the advent of Industrial policies was the dismal and poor performance of the State-Owned Enterprises (SOEs). On account of these cumulative factors the government of Bangladesh resorted to the privatization programme in the form of divesting the shares of SOEs and also sometimes selling them fully off to the private hands. A detailed analysis of the on-going privatization programme in Bangladesh has been critically presented in the succeeding paragraphs.

5.2 Industrial Policies And Privatization:

- (a) **Industrial Policy of 1972:** Bangladesh achieved independence in 1971. The first industrial policy statements of Bangladesh was announced in 1972,¹ keeping in view the objectives of socializing (i.e. nationalizing) the country's means of production. The policy statement also allowed Private Foreign Investment to work only in collaboration with the government giving some conditional guarantee of repatriation of capital or compensation.²

The industrial policy was then revised in July 1974, laying considerable emphasis on the ceiling for private investment which was raised to 30 lacs with the provisions of tax holiday ranging from five to seven years³. Private foreign investors were allowed to enter into partnership with domestic private investors but not exclusively in projects where technological and managerial gap existed.

- (b) **Industrial Policy of 1975:** The Industrial Policy of 1972 revised

in 1974 was again revised in December, 1975.⁴ Major changes were introduced in this industrial policy which remained unchanged until the policy of 1982. The highlights of the policy were as follows:

- (i) The limit on private investment was raised to Tk. 10 crores from Tk30 lacs.
- (ii) The new policy maintained 18 reserved categories of industries and 10 of them to joint ventures between the public corporations and private investors.
- (iii) The government would in all cases, hold at least 51 per cent of the equities.
- (iv) Tax holidays and other incentives were increased.
- (v) The Investment Corporation of Bangladesh was authorised to work again as it was closed since 1972.
- (vi) The Stock Exchange was reactivated which was closed since 1972.
- (vii) To divest the shares of those enterprises originally abandoned by their owners.

As a result of this policy the government embarked upon a disinvestment policy in 1976. The disinvestment policy was further strengthened with abolition of ceiling in 1978. To promote and protect foreign investment the "Foreign Private Investment Act" was also passed in 1980.

- (c) **The Industrial Policy of 1982 :** The President Zia was assassinated in 1981, as a result, a new government came into power.. There was significant growth in the economy during Zia's regime. Unfortunately, drought broke out in 1982 which hindered the agricultural growth and subsequently food imports increased. Under these circumstances, the government had to reduce public sector expenditure which as result affected on the performance of SOEs. Further, ' a review of public sector enterprises convinced government leaders that SOEs were not capable of leading a rapid industrial expansion, SOEs were viewed as too bureaucratic and inefficient, lacking accountability, ambivalent about social and commercial goals, and most were consistently losing money'⁵.

'The government decided to embark on an economic development effort in which the private sector would play a much more prominent role. This would necessitate a change in the relative roles of the private and public sectors, along with an improvement in the investment and regulatory environments that would permit the private sector to operate effectively.'⁶ As a consequence, the new Industrial Policy' was announced on June 1, 1982, with the main purpose 'to provide a new dimension and greater thrust to industrialization of the country.'⁷

The main objectives of the 1982 New Industrial Policy (NIP) are summarised as under:

- (a) To expand the manufacturing sector with increased participation of the private sector.
- (b) To limit the role of public sector to the establishment of basic heavy and strategic industries.
- (c) To improve the efficiency and profitability of public sector enterprises.
- (d) To protect and promote local industries by reasonable tariff measures and/or by banning imports where there was adequate domestic capacity.
- (e) To promote export-oriented industries.
- (f) To encourage efficient and economic import substitutions, and
- (g) To create additional productive employment opportunities in the rural areas through promotion of rural and cottage industries.

Six industries were listed for public sector, such as:

- i) Arm and ammunition.
- ii) Atomic Energy.
- iii) Air transport.
- iv) Telecommunications.
- v) Electricity generation and distribution and
- vi) Mechanised forest extraction.

In all, 12 industries were listed for both public and private investment and joint ventures. The New Industrial Policy (NIP) took a new step by stating that "in order to stimulate the share market and raise additional funds, share upto 49 per cent of some enterprises managed by the sector corporations will be unloaded for public subscriptions or operation by the Investment Corporation of Bangladesh."⁸ The Industrial policy of 1982 also strongly advocated the policy to return the jute and textile mills, nationalised

a decade earlier, to the original Bangladeshi owners. This decision was the first move towards the privatization. The move to privatize these two major industries was made, 'in order to create a favourable investment climate and confidence in the minds of prospective entrepreneurs'.⁹ The emphasis was further laid by New Industrial Policy (NIP) for rehabilitation and reform of existing industries. The New Industrial Policy (NIP) also recommended subcontracting of large companies into small companies.

Recognizing the importance and impact of privatization, the government decided to continue to pursue the following policies.¹⁰

- i. Abandoned, vested and taken-over industrial enterprises and shares and other proprietary interest will continue to be disinvested.
 - ii. Industries established with corporation's own resources may also be disinvested.
 - iii. Corporation may develop industries and then disinvest them or unload their shares;
 - iv. Shares will be unloaded mainly through public subscription or through the Investment Corporation of Bangladesh.
- (d) **Industrial Policy of 1986 And The "51-49 Plan"**: The process of private investment promotion reached its peak in the Industrial policy of 1986¹¹. The IP-'86 was mainly a refinement of the NIP of 1982. Attention was paid to promotion of small and medium agro-based industries. The IP-'86 also broadened the scope of private sectors development. The industrial categories reserved for the public sector were raised from 6 to 7 with a view to including security printing and mining. The "concurrent list" was dropped replacing a statement that "all industries not reserved for the public sector will be meant for the private sector"¹².

The 1986 policy mentioned more prominently than the other earlier policies the possibility of joint public private ventures in industrial fields where the private sector lacked sufficient funds; the government would gradually bow out of these - ventures once they were functioning.¹³ Also, another attempt was made to streamline sanctioning and licensing procedures.¹⁴ The policy further announced that public sector enterprises would be converted into holding company by selling 49 per cent of shares to the employees and public and the rest would be kept in by the respective sector corporation. To facilitate the private sectors, government established a Board of Investment in 1989.

- (e) **Industrial Policy of 1991** : The declaration of Industrial policy in 1991 fully confirmed the continuation of the privatization policy.¹⁵ However, this

industrial policy of 1991 was further revised in December, 1992 to extend a far more policy support with a package of incentives towards rapid privatization. One of the major goals of this policy was to increase efficiency and productivity in the industrial sector by transferring public sector industries to the private sector.¹⁶ Recognizing the importance and impact of privatization, the government continued to pursue the following policies¹⁷:

- i. Abandoned, vested and takeover industrial enterprises and shares and other proprietary interests will continue to be disinvested.
- ii. Except industries in the reserved sector, capital will continue to be withdrawn gradually from industry under corporations.
- iii. If required, hundred per cent shares of public enterprises will be sold.
- iv. Industries in the public sector will be sold through floating of tenders.
- v. In order to ensure widest possible distribution of shares and securities among the general public, and associate them in the management, shares will be unloaded mainly through public subscriptions; and
- vi. Bangladeshis working abroad will be encouraged to purchase these industrial units or shares in foreign currencies.

From the foregoing analysis of the industrial policy of 1991, it becomes clear that the main objective of this policy was to accelerate the private sector and to ensure the best use of resources invested in these sectors.

5.3 Institutional Arrangements For Privatization:

The divestiture programme in Bangladesh was started through selling of small enterprises. The indicative wave of divestitures occurred in 1982. But 'not much is known about the institutional set-up for privatization between 1971 and 1982, though a large number of small industrial units were sold through tenders and that the procedures for these tenders were approved by the cabinet and implemented by the Disinvestment Board of the Ministry of Industries.¹⁸ A large number of enterprises were also sold under this arrangements through auctions. But proper policies were not followed for effectiveness of the programme, as a result, the programme could not succeed.

In industrial policy of 1986, there was a provision for accelerating privatization programme. Keeping this view, two bodies were created to gear up the privatization programme, such as : an Executive Committee to

supervise the activities of the Disinvestment Board; and a Working Committee to help in the review and implementation of divestiture. But the roles of these agencies were not clearly identified so they failed to revitalize the privatization programme.

In 1991, an attempt was again made to speed up the privatization programme. For this very purpose the Inter- Ministerial Committee on Privatization (ICOP) was formed by the government. The responsibility of that agency was 'for developing privatization policy as well as considering, approving and monitoring specific privatization proposals for the various administrative ministries'.¹⁹ The process of divestiture under that agency was as follows:

The Ministry of Industries would submit a list of suitable enterprise for divestiture. ICOP approved list would then be forwarded to the Executive Committee of the National Economic Council (ECNEC) for final approval. The list would then be sent back to the Ministry of Industries through ICOP to the working group for purposes of valuation, pricing and preparation of bidding documents. The profile is sent back to ICOP for review and fixing of reserve prices. ICOP then instructs the Ministry of Industries to proceed with the sale and negotiate with potential buyers. ECNEC approved the final sale on the recommendation of ICOP.

However, this agency as mentioned above also failed to attain its objectives because of the following reasons:²⁰

- i. The process was lengthy and complicated.
- ii. It had no staff of its own with the technical know how to implement the procedures as regards privatization; and
- iii. It was also not given the mandate and autonomy to engage in privatization transactions - rather its role was limited to monitoring and approval functions.

So, the government was compelled to introduce a new structure for privatization to be more dynamic. The Privatization Board' was established on 20th March, 1993, by the Ministry of Planning dissolving all agencies constituted before. However, the Board was placed under the Cabinet Division requiring it to report directly to the Cabinet Committee on Finance and Economic Affairs. But two items in the mandate of the Board were dropped, one of which was to facilitate private investment in the reserved sectors of electricity and telephones, and the other to facilitate the disinvestment of textiles industries.²¹ However, later on it was accorded the status of an autonomous body and was entrusted with necessary mandate to implement its programme. It is pertinent to point out here that this Board has already

chalked out a programme of privatizing SOEs for 1994-95 and 1995-96. Some SOEs have already been privatized by the Board successfully.

5.4. Disinvestment Scenario Of State Owned Enterprises (SOEs) In Bangladesh:

The privatization process in Bangladesh received adequate support from the successive governments. The adopted ways of privatization have been followed in the industrial sector.²²

1. Gradual divestiture of abandoned and taken over industries as well as restoration/ transfer of such industries to their Bangladeshi owners or sale of the same through advertisement or negotiation.
2. Divestiture of some units set up by the state where such units are found to be incurring losses on a continuous basis or are not able to compete with private sector.
3. Transfer of jute and textile mills to their Bangladeshi owners to create an investment climate and confidence among the prospective entrepreneurs.
4. Public sale of 49 per cent shares including 15 per cent to the employees of public sector enterprises through stock exchange in order to reactivate the share market and raise additional equity capital. The share has been raised to 100 per cent in the industrial policy of 1991.
5. Conversion of public corporations into holding corporations and industrial enterprises in the public sector into public limited companies;
6. Liberalization and deregulation for private industrial sector development.

The succeeding paragraphs presents an analysis regarding the disinvestment programme in different industrial policy periods.

Table -1 provides the list of the smaller firms divested through the Director General of Industries (DGI) during the period 1975-81. It is observed from the table that about 21 rice and flour mills were divested followed by 16 vegetable oils, 10 textiles and hosiery and 11 miscellaneous firms during the period under reference. Other firms such as, jute rope, soap and chemicals, films, ice and cold storage, hotels, wood products, engineering etc. were also divested during the same period making the total number of smaller firms under divestiture programme about 115.

These firms mainly belonged to the owners who had migrated to Pakistan after liberation leaving these firms in lurch. Therefore, the newly established government of Bangladesh took the priority step in divesting these firms through the Director General of Industries (DGI) in order to rehabilitate them to strengthen the industrial sector.

Table -2 displays the divestiture of firms from corporations during the period 1975-81. It is discernible from the table that about 25 firms were divested from tanneries, hides and bones and about 17 firms from metal works during the period under review followed by the firms from textiles (11), jute products (7) and tobacco (6). The divestiture of firms was also done in case of rubber products, food products, wood products, vegetable oils etc. during the same period. About 10 firms from miscellaneous nature were also divested making the total number of firms divested to 110 during the period under reference. Here also the divestiture was the result of mass exodus of small entrepreneurs to Pakistan.

After assassination of president Zia in 1981, the new military government came to the power in 1982. In order to give continuity to the previous economic policies, the government announced the 'New Industrial Policy (NIP) on June, 1982 making a sufficient provision for private sector. It stated that 'in order to create a favourable investment climate of confidence in the minds of prospective entrepreneurs, it was decided in principle to return the jute and textile mills owned by only Bangladeshies to them on the same basis as before independence.²³ The then government started denationalization and this was the culmination of the process of privatization that started in 1975.

TABLE - 1
NUMBER OF FIRMS DIVESTED (100%) THROUGH DIRECTOR
GENERAL OF INDUSTRIES DURING 1975-81

S.No.	Nature of Firms	No. of Firms Divested
1.	Metal Working	08
2.	Rubber products	11
3.	Paper and Printing	07
4.	Vegetable Oils	16
5.	Rice and Flour Mills	21
6.	Textiles and Hosiery	10
7.	Soap and Chemicals	04
8.	Films	03
9.	Jute Rope	02
10.	Ice and Cold Storage	03
11.	Hotels	02
12.	Trading	03
13.	Engineering	05
14.	Wood Products	04
15.	Glass and Optical	03
16.	Salt	02
17.	Miscellaneous	11
	Total	115

Source: Compiled from Humphrey, Clare E, "Privatization in Bangladesh: Economic Transition in a poor country", The University Press Ltd. Dhaka, 1992, p. 57

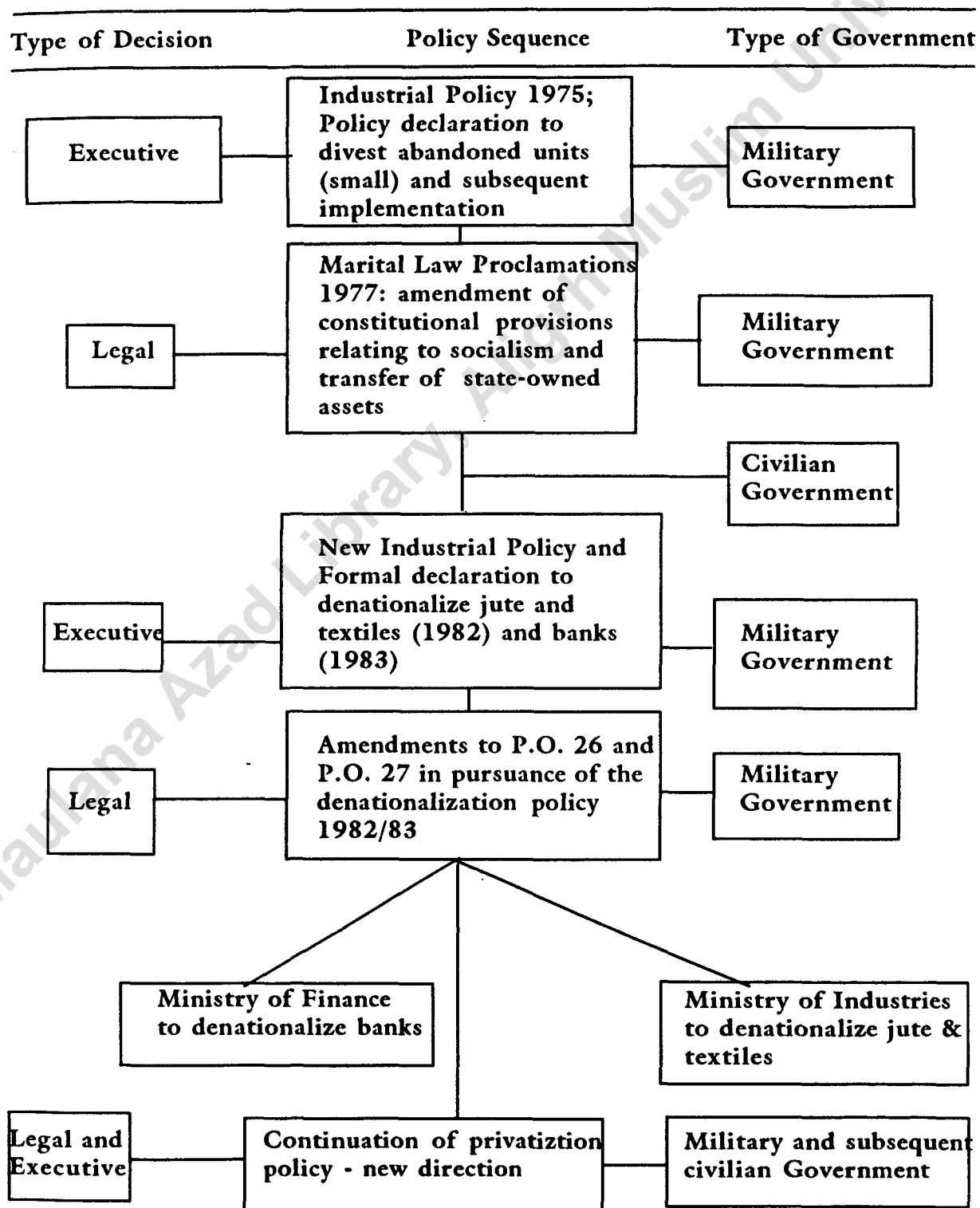
TABLE - 2**DIVESTITURE OF FIRMS (100%) FROM CORPORATIONS DURING
THE PERIOD 1975-81**

S.No.	Nature of The Firms	No. of Firms Divested
1.	Tanneries, hides and bones	25
2.	Metal Works	17
3.	Textiles	11
4.	Jute Products	07
5.	Tobacco	06
6.	Rubber Products	05
7.	Food products	05
8.	Wood Products	05
9.	Vegetable Oils	05
10.	Matches	04
11.	Ice and Cold Storage	04
12.	Engineering	03
13.	Chemicals and Pharmaceuticals	03
14.	Miscellaneous	10
Total		110

Source: Compiled from Humphrey, Clare E, " Privatization in Bangladesh: Economic Transition in a poor country", The University Press Ltd. Dhaka, 1992, p. 58.

Chart -1, (Policy Reform Sequence), gives a methodical presentation of the policy reform sequence. The most important things which have surfaced from the chart that political changes were momentous in shaping the reform, the apparent policy changes during two periods formed significant part of a gradual process of policy reforms in the same direction. Each phase of reform was started with an administrative declaration which was followed by adjustment in the legal framework to make the reform legally justifiable. And the reforms were undertaken by military governments immediately on coming to power.

CHART - I
POLICY REFORM SEQUENCE TOWARD DENATIONALIZATION



Source: Chowdhury Tawfiq E., "Privatization of State Enterprises in Bangladesh, 1975-84", in *Managing Policy Reform in the Real World, Asian Experience*, World Bank, 1992, p. 62.

(a) Denationalization of Jute And Textile Mills:

The government circulated a formal notice pertaining to the terms and conditions for denationalization of jute and textile mills in September, 1982, inviting application to buy shares within 21 day period with following conditions²⁴.

- i. The Price of the shares would be the same as originally paid to the owners in compensation;
- ii. Those owning less than 50 per cent would have to buy shares to own up to 51 per cent, and these shares would be sold at a revalued price.
- iii. The payment would be in cash, or 50 per cent in cash and the rest to be paid within 12 months, backed by guarantee.
- iv. The Bangladeshi owners of 52 per cent would have the first option to buy; followed by other private parties and financial institutions.
- v. All assets and liabilities, including those of banks, financial institutions, etc., would stand transferred to the denationalised companies on the existing terms and conditions.
- vi. The denationalized companies would take over all the employees, none of whom could be dismissed before the expiry of one year from the date of transfer, and
- vii. If the denationalized company defaulted on its contractual obligations, or did not operate the mills for any reason within its control, the government would have the right to intervene in the affairs of the company.

In denationalization of those two sectors i.e. Jute and textile, a standard implementation procedure was followed. Chart-2 portrays the implementation steps towards denationalization of jute and textile mills.

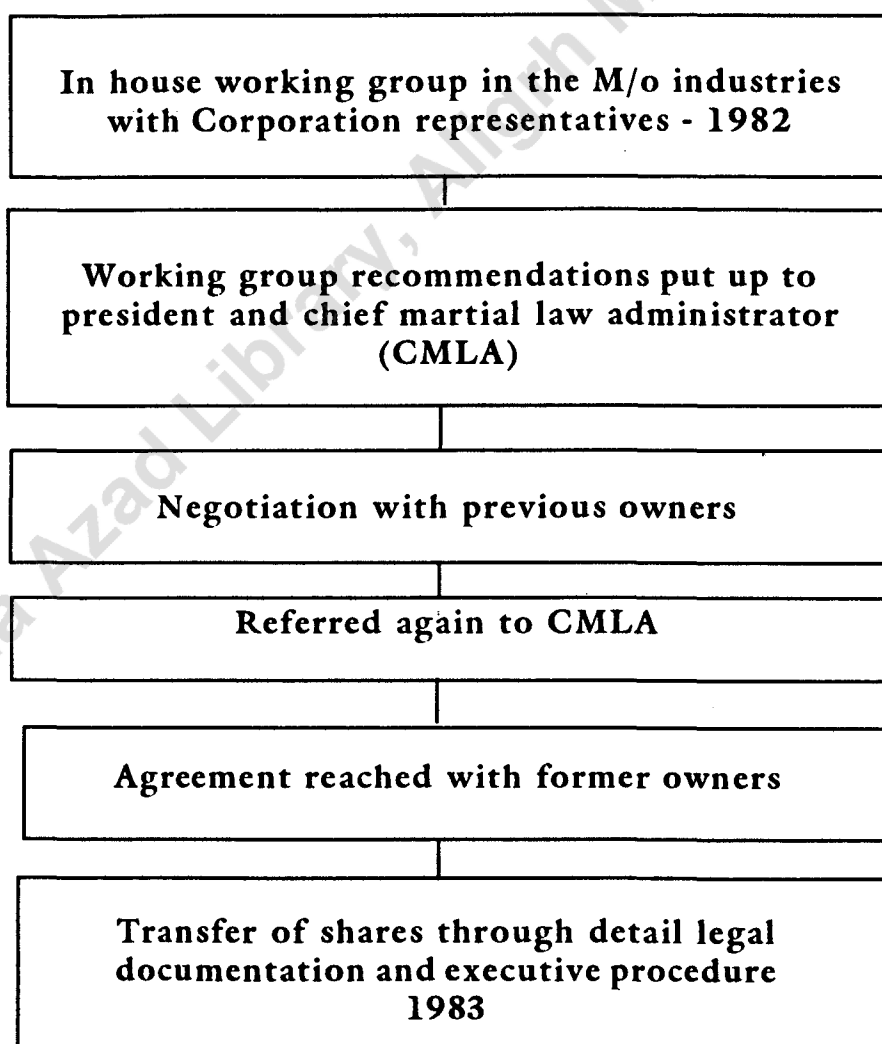
(b) Denationalization Of Banks

Two Banks (Pubali Bank and Uttara Bank) were privatized during the period of president Ershad. In order to privatize these two Banks, a task force was formed in the Finance Ministry headed by Finance Minister alongwith representatives of the central bank and chief executives of these two banks. According to the recommendation of the task force, these banks were reconstituted as public limited companies and their assets and liabilities were revalued. Revalued shares of these banks were opened for purchasing by the public. Former Bangladeshi Share holders were given preference to buy shares proportionate to their previous holdings and

the rest of the shares were sold to the general public with preference given to wage earners. Chart - 3 shows the process of implementation of denationalization of banks.

CHART - 2

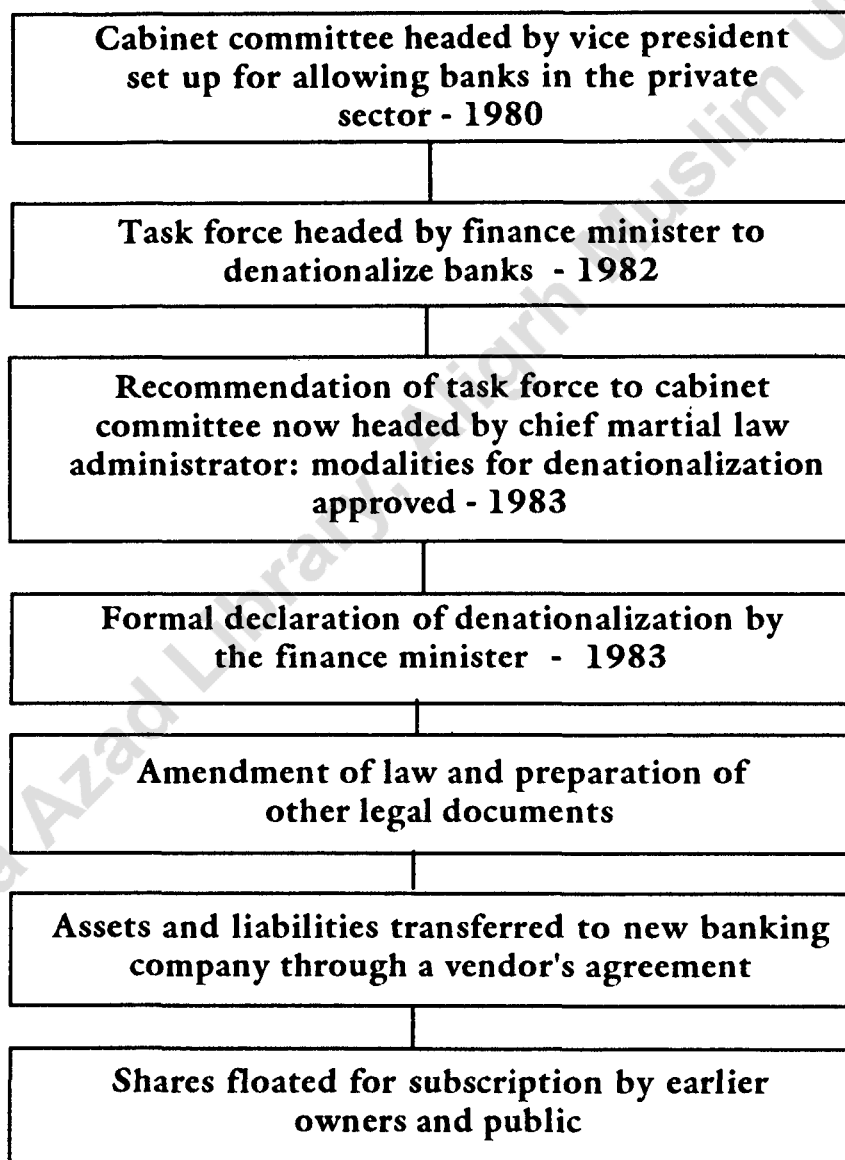
DENATIONALIZATION OF JUTE AND TEXTILE MILLS - IMPLEMENTATION



Source: Chowdhury Tawfiq E., "Privatization of State Enterprises in Bangladesh, 1975-84", in Managing Policy Reform in the Real World, Asian Experience, World Bank, 1992, p. 64.

CHART - 3

DENATIONALIZATION OF BANKS - IMPLEMENTATION



Source: Chowdhury Tawfiq E., "Privatization of State Enterprises in Bangladesh, 1975-84", in Managing Policy Reform in the Real World, Asian Experience, World Bank, 1992, p. 66.

TABLE - 3**DENATIONALISATION PROFILE OF JUTE AND TEXTILE MILLS
DURING 1982-93**

Mills	Position Before Denationalization	Units Denationalized
Jute	72	42(58.33)
Textile	68	33(45.83)

- Source :**
- Sobhan Rehman and Mahmood Syed Akhter, "The Economic Performance of Denationalised Industries in Bangladesh: The Case of the Jute and Cotton Textile Industries", BIDS, Dhaka, 1991, pp. 1-4, 19.
 - Quarterly Jute Goods Statistics, Vol. 83, 4th Quarter (April-June) 1993-94, Bangladesh Jute Mills Corporation, pp. 26-27.

Table - 3 provides statistics as regards the denationalization profile of the Jute and the Textile mills during the period 1982-93. It has been observed from the table that the bulk of the denationalisation of the jute and the textile mills was completed during this period. About 27 out of the total 68 textile mills and 35 out of the total 72 jute mills were transferred back to the private sectors between 1982 and 1986. The rest of the denationalised mills i.e. 7 jute mills and 6 textile mills were denationalized in between 1987 to 1993. It is further discernible from the table that the total number of denationalised jute mills registered were 42 i.e. 58.33 per cent and 33 textile mills i.e. 45.83 per cent of the total holdings during the same period.

(c) The Divestiture Of Abandoned Enterprises

The divestiture of abandoned units continued following the procedure of the declaration of 1975, which has been shown in Chart-4. The procedure was as follows.²⁵

- The Minister for Industries initially approves the units to be divested.
- An enterprise profile of the unit is prepared for the guidance of potential buyers and a national reserve price is fixed.

- iii. Public tenders are floated and publicised through newspapers and through Embassies abroad.
- iv. Prospective buyers may visit and inspect the enterprises.
- v. On the appointed date, tenders are opened publicly in the presence of buyers, they are then evaluated by the Disinvestment Board.

CHART - 4

DIVESTITURE OF ABANDONED UNITS - IMPLEMENTATION



Source: Chowdhury Tawfiq E., "Privatization of State Enterprises in Bangladesh, 1975-84", in Managing Policy Reform in the Real World, Asian Experience, World Bank, 1992, p. 67.

TABLE - 4

**COMPREHENSIVE STATEMENT OF THE ENTERPRISES
DISINVESTED DURING 1975-84 (UNDER MANAGEMENT
OF DIRECTOR GENERAL OF INDUSTRIES)**

S.No.	Name of the Corporations/ Enterprises	No. of units divested	Divestiture Price (Tk in crore)
1.	Fully Abandoned Enterprises	232	12.76
2.	Partially Abandoned Enterprises	15	0.91
3.	Fully vested (former Enemy Property) Industrial Enterprises	47	4.72
4.	Partly vested Industrial Enterprises	6	0.04
5.	Miscellaneous units	34	9.48
Total units and Prices		334	27.91

Source: Compiled from Humphrey, Clare E, " Privatization in Bangladesh: Economic Transition in a poor country", The University Press Ltd. Dhaka, 1992, pp. 240-276.

- vi. Claims by former owners or shareholders are examined by a Security Committee which in turn places its findings before the Working Group.
- vii. The Disinvestment Board in its formal meeting gives the final decision, which among others, includes the decision to sell or invite new tenders.
- viii. The buyer has to make 20 per cent of the sale price as a down payment and the rest in three equal annual installments with a moratorium for two years. In case of default, 7 per cent penal interest is charged. In such a situation, government has the option to take over the unit and forfeit the payments made by the Buyers. The title is transferred after the payment of the total sale price. 'Nearly 500 abandoned units have been privatized so far'.²⁶

Table - 4 provides a comprehensive statement of the enterprises divested under the management of Director General of Industries during 1975-84. The enterprises under the reference are classified under five categories such as fully abandoned enterprises, partially abandoned enterprises, fully vested (former enemy property) industrial enterprises, partially vested industrial enterprises and miscellaneous units. It is discernible from the table that 232 fully abandoned enterprises were divested at the price of Tk. 12.76 crore during 1975-84. The number of partially abandoned enterprises was 15 which were disinvested fetching the total amount of Tk 0.91 crore during the period under reference. Fully vested (Former enemy property) industrial enterprises which totalled 47 were disinvested with the total price of Tk 4.72 crore and about 6 under partly vested industrial enterprises were divested at the price of Tk. 0.04 crore during the same period. 34 miscellaneous units disinvested brought the price to the tune of Tk. 9.48 crore. Thus, a total of 334 units were disinvested fetching an amount of Tk 27.91 crore under the management of Director General of Industries during 1975-84.

Table - 5 shows the disinvestment trends during 1976-82. It is discernible from the table that a total of 217 units were disinvested totally or partially or were denationalised during the period under reference. Partially disinvested units were included i.e. units for which a certain percentage of total shares were offered for sale on the ground that the shares not disinvested would be returned or were already returned to their ex-owners. Thus, the whole unit might validly be defined as disinvested and denationalised or in the process of being so. Hence, it was comprehensively referred to all the 217 units under different stages of processing and disinvested under different terms, as being disinvested (D1) and denationalised (DN) units.

Table -6 shows the sector wise break up of disinvested/returned units of BCIC, BSFIC and BSEC. It has been observed from the table that BCIC disinvestment package includes 28 tanneries, 10 rubber and footwear factories, 7 match factories, 5 chemical industries, 8 paper and board industries and one pharmaceutical unit. Most of these units were previously owned by Pakistanis and were abandoned by them during 1971. The disinvested units under the BSFIC include 2 rice and flour mills, 5 ice and cold storage units, 7 tobacco manufacturing enterprises, 17 oil mills and refining units, 4 shrimps and frogleg exporting enterprises, 2 salt manufacturing units and 5 confectionary and beverage plants. 10 iron and steel re-rolling mills, 11 metal processing units, 2 saw mills, 4 tubes and pipe mills, 2 aluminium mills, one each of welding electrode and radio units were under the BSEC.

In conclusion it is observed from the analysis of tables 5 and 6 that in contrast to the underlying pattern of disinvestment of the other four sector corporations where overwhelmingly the Pakistani owned and abandoned enterprises were disinvested, in the case of the BJMC and the BTMC, the policy of denationalization has been principally restricted to units owned by Bangladeshi nationals. This means that virtually the entire public sector mills currently left the

TABLE - 5

**NUMBER OF DISINVESTED/DENATIONALISED UNITS BY
CORPORATIONS DURING 1976-82**

Sectors and Corps.	Units owned before DI/DN	Units Disinvested	Under Process of partial (DI)	Returned to Ex-owners (DI)	Total units of DI/DN (3+4+5)
(1)	(2)	(3)	(4)	(5)	(6)
BCIC	88	51(58)	5	7	63(71.16) (29.0)
BSFIC	68	35(51.5)	6	5	46(67.7) (21.2)
BSEC	64	22(34.4)	9	5	35(54.7) (16.2)
BFIDC	22	3(13.6)	0	0	4(18.2) (1.8)
BJMC	79	5(6.3)	0	32	37(46.8) (17.1)
BTMC	60	4(6.7)	0	28	32.(53.3) (14.7)
Total	381	120(31.5)	20	77	217(56.9) (100)

Source: Compiled from Sobhan Rehman and Ahsan Ahmad "Disinvestment and Denationalisation: Profile and Performance," BIDS, Dhaka, July, 1984, p. 41.

BJMC and BTMC are made up of units abandoned by the Pakistanis.

TABLE - 6

**SECTOR WISE BREAKDOWN OF DISINVESTED RETURNED UNITS
OF BCIC, BSFIC & BSEC (No. of Units) DURING 1976-82**

BCIC	63	Sector No.	Tannery 28	Rubber 10	Match 7	Chemical 5	Paper 8	Pharmac. 1	Others. 4
BSFIC	46	Sector	RICE & Flour Mills	ICE and Cold Storage	Tobacco	Oil	Fish	Salt	Confec-tionary, Beverages & Food Products
		No.	2	5	7	17	4	2	5 4
BSEC	35	Sector	Rero-lling Mills	Metal Proce-ssing & Engin-reeing	Saw Mills	Tubes & Pipes	Wel-ding Elec-trodes	Allu-mini-um.	Cables Radio Others
		No.	10	11	2	4	1	2	1 1 3

Source: Ministry of Industries and Commerce and the Sector Corporations, The Government of Bangladesh.

TABLE - 7

**DISTRIBUTION OF UNITS BY SALES PRICE (NO. OF UNITS)
DURING 1976 - 82**

Sales Price Between	BCIC	BSFIC	BSEC	BFIDC	BJMC	BTMC	GRAND TOTAL
0-10 lac	7	2	0	0	0	0	9(8.11)
10-25 lac	16	6	3	2	0	0	27(27.32)
25-50 lac	10	7	5	1	0	2	25(22.52)
50 lac-1 crore	10	7	7	0	1	1	26(23.43)
above 1 crore	7	7	7	0	3	0	24(21.62)
Total							111(100)

Source: Derived from Ministry of Industries and Commerce, The Government of Bangladesh.

Table - 7 shows the distribution of units according to their sales price of corporations. The table indicates variation in the sales value of the enterprises. It shows that out of the total 111 disinvested enterprises, 8.11 per cent were sold for less than Tk 10 lacs, 27.32 per cent were sold between Tk 10-25 lacs, 22.52 per cent between Tk 25-50 lacs, 23.43 per cent between TK 50-75 lacs and 21.62 per cent above Tk 100 lacs. This last class may be categorised as large industries in Bangladeshi standards. The last group includes units under BCIC, BSFIC and BSEC.

Table 8 shows the units divested and divestiture price during the year 1983-84. It has been observed from the table that Bangladesh Chemical Industries Corporation disinvested 8 units with price of Tk 27.43 crore (total price of 8 units). In case of Bangladesh Sugar and Food Industries Corporation, 17 units were disinvested with the total price of Tk 51.59 crore. Nine (9) units were disinvested at price of the Tk 10.79 crore under Bangladesh Steel and Engineering Corporation. In case of Bangladesh Freedom Fighters Welfare Trust which disinvested 4 units at the total price of Tk 2.00 crores. A total of 38 units were disinvested with the total amount of Tk 91.81 crore during the period under reference.

TABLE -8
NUMBER OF DISINVESTED UNITS DURING 1983-84
(Tk in Crore)

S.No.	Name of the Corpn.	No. of units	Divestiture Price
1.	Bangladesh Chemical Industries Corporation	8	27.43
2.	Bangladesh Sugar and Food Industries Corporation	17	51.59
3.	Bangladesh Steel and Engineering Corporation	9	10.79
4.	Bangladesh Freedom Fighters Welfare Trust	4	2.00
Total units and price		38	91.81

Source: Compiled and Computed from Humphrey, Clare E., "Privatization in Bangladesh: Economic transition in a poor country", "The University Press Ltd., Dhaka, 1992, pp. 234-249.

TABLE - 9
PHASING OF DIVESTITURE OF INDUSTRIAL ENTERPRISES
FROM 1972 TO 1989

Phase	Year	No. of units divested which were managed by Management Board (i.e. small units)	No. of Units divested which were managed by the public Corporations	No. of vested (enemy) properties divested	Total No of units divested
Phase-I (1972-75)	1972	-	-	12	12
	1973	-	-	1	1
	1974	44	-	1	45
	1975	90	-	8	98
Sub-Total		134	-	22	156
Phase-II (1976-81)	1976	3	7	12	22
	1977	18	35	3	56
	1978	19	36	5	60
	1979	26	19	2	47
	1980	10	10	3	23
	1981	14	2	3	19
Sub-Total		90	109	28	227
Phase-3 (1982-89)	1982	10	6	3	19
	1983	10	24	-	34
	1984	1	18	-	19
	1985	11	4	3	18
	1986	5	1	-	6
	1987	5	1	1	7
	1988	1	-	1	2
	1989	-	2	-	2
Sub-Total		43	56	8	107

Jute and Textile Mills Denationalized upto date 75 (Jute 35 and 40 Textiles)

Grand Total **(156+227+107+75)** **565**

Source: Sultan Ahmed, "Trends of Privatization in the Asian Pacific Reform with Particular Reference to Bangladesh, Asian Affairs, No.3 July-Sept., 1991.

Table 9 provides statistics as regards phase wise divestiture of industrial enterprises from the period 1972 to 1989. It is observed from the table that in the first phase (1972-75), 156 State - Owned Enterprises were privatized. In the second phase which starts from 1976 to 1981, 227 SOEs were privatized. In the last phase i.e. from 1982-89, 182 State Owned Enterprises (SOEs) were registered for p

TABLE - 10

**STATE OWNED ENTERPRISES DRAWN UP BY THE
DISINVESTMENT BOARD ON OCTOBER 07, 1991
FOR SALE OF SHARES**

S.No.	Name of the units	Sale of Shares (%)
1.	Dhaka Vegetable Oil Industries Ltd.	51
2.	Chittagong Cement Clinker and Grinding Company Limited.	51
3.	Kohinoor Chemical Company (Bangladesh)Ltd.	51
4.	Eagle Box and Carton Manufacturing Company Ltd.	51
5.	Metalex Corporation Limited	51
6.	National Tubes Limited	51
7.	Ujala Match Factory	58
8.	Lira Industrial Enterprise Limited	62.5
9.	General Electric Manufacturing Co. Ltd.	51
10.	Shyampur Sugar Mills Limited	51
11.	Panchagar Sugar Mills Limited	51
12.	Sylhet Paper and Pulp Mills Limited	51
13.	Osmania Glass Sheet Factory Limited	51
14.	Zeal Bangla Sugar Mills Limited	N.A.
15.	Bangladesh Insulator and Sanitary ware Factory	N.A.
16.	Bangladesh Cycle Industries	N.A.
17.	Bangladesh Blade Factory	N.A.
18.	Kohinoor Battery Manufacturing Co.Ltd.	N.A.
19.	Khulna Hard Board Mills	N.A.
20.	Desh Bandhu Sugar Mills	N.A.
21.	Karnaphulli Rayon and Chemicals Ltd.	N.A.
22.	Dossa Extraction	N.A.
23.	Bangladesh Oil Mills	N.A.
24.	National Ice Company	N.A.
25.	Star Roller Flour Mills	N.A.
26.	Chhatak Cement Factory	N.A.
27.	Palash Urea Fertilizer Factory	N.A.

Source: Policy Implementation and Analysis Group (PIAG) Notes on Privatization in Bangladesh, June 16, 1994, Dhaka, pp. 16-17.

privatization. These enterprises mainly belonged to the jute and Textile Sectors. During this period 35 jute mills and 40 textile mills were denationalised. Thus a grand total of 565 State-Owned Enterprises (SOEs) were privatized during this period.

From the foregoing analysis it may be deduced that the second phase i.e. during 1976-81, larger number of State-Owned Enterprises were partially privatized and some were fully denationalised. The government of this period decided to redirect the economy away from the socialistic pattern toward a mixed economy with a greater role for the private sector. The government believed that private enterprise was more efficient and dynamic so that the best chance for growth would come from the private sector. Further, the government was also alert that the Asian countries that had emphasised on private sector development had progressed faster than socialist countries.

The third phase i.e during 1982-89, was the most significant time for denationalisation of the Jute and Textile mills. The move towards privatizing these mills was made in order to create a favourable investment climate and confidence in the minds of prospective entrepreneurs.

Table 10 displays privatization of State-Owned Enterprises drawn up by the Disinvestment Board during 1991. It is observed from the table that 27 enterprises from different line, were adopted for sale of their shares to the order of 51 per cent. However, there were a few enterprises whose shares were sold at even more than 51 per cent, such as, Ujala Match Factory 58 per cent and Lira Industrial Enterprise Limited 62.5 per cent. It is worth mentioning here that the privatization Board, after its formation in 1993, also privatized some enterprises such as, Dhaka Vegetable Oil Industries Limited, Chittagong Cement Clinker and Grinding Company Limited, Kohinoor Chemical Company (Bangladesh) Limited, Eagle Box and Carton Manufacturing Company Limited, Shyampur Sugar Mills Limited etc.

From the foregoing discussions, it may be said that the Disinvestment Board has played a major role in privatizing the SOEs in bulk. This Board also drew up a programme for privatizing SOEs to the tune of 100 per cent as shown in Table -11.

As a matter of fact the government adopted privatization programme for these enterprises mainly due to increase efficiency and productivity in industrial sector by transferring these loss making industries to the private sector. Most of these enterprises were losing concerns. Wide spread pilferage, aided by incompetent and greedy management quickly turned State Owned Enterprises (SOEs) into centres of financial and operational inefficiencies. The total losses in State Owned Enterprises estimated to be equal to about 40 per cent of the total annual development and aid disbursements by the government. Under this circumstance, the government was stimulated to pursue a vigorous programme of privatization.

TABLE - 11

**STATE OWNED ENTERPRISES DRAWN UP BY THE
DISINVESTMENT BOARD ON OCTOBER 07, 1991
FOR SALE OF ENTERPRISES**

S.No.	Name of the Units	Sale of Enterprises (%)
1.	Dhaka Steel Industries	100
2.	Quality Iron Industries	100
3.	Prantik Traders	100
4.	Bangladesh Machine Tools Factory	100
5.	Bangladesh Diesel Plant	100
6.	Chittagong Chemical Complex	100
7.	Dhaka Match Factory	100
8.	North Bengal Paper Mills	100
9.	Thhakurgaon Sugar Mills	100
10.	Setabgonj Sugar Mills	100
11.	Rangpur Sugar Mills	100
12.	Kaliachapara Sugar Mills	100
13.	Kustia Sugar Mills	100
14.	Amir Agencies	100
15.	Carew and Company	100
16.	Cane Making and Tin Printing Plants	100

Source: Policy Implementation and Analysis Group (PIAG) Notes on Privatization in Bangladesh, June 16, 1994, Dhaka, pp. 17-18.

(d) Sale of Government Shares In Multinational Companies.

The government of Bangladesh adopted a mass privatization programme for all industrial enterprises right from 1975. The government decided to sell all shareholdings in multinational companies. And accordingly the Privatization Board chalked out a privatization programme including sale of shares in Multinational Companies.

Table - 12 shows sale of government shares in multinational companies till 1994. It is discernible from the table that 18 multinational companies in which government possessed the shares, were selected for sale. It is worth mentioning here that the share holdings in 6 multinationals were sold by mid-1992 to a wholly State-Owned Insurance Company. And shareholdings of some other multinational companies are still in the process of sale till date.

Table -13 furnishes informations as regards the sale of government shares in multinational companies for the year 1994-95. It is revealed from the table that the Privatization Board resorted to a programme of selling the governments shares in 10 different multinational companies. 18 multinational companies were selected for privatization by the Disinvestment Board in 1991 (Vide table -12) and shareholdings of eight multinational companies have been sold during 1991-1994. The shares of the remaining 10 multinationals are scheduled to be sold off during 1994-95.

TABLE - 12

SALE OF GOVERNMENT SHARES IN MULTINATIONAL COMPANIES, TILL 1994

S.No.	Name of the Companies	Sale of Shares (%)
1.	Squibb of Bangladesh Limited	40.00
2.	Bangladesh Oxygen Company Ltd.	1.5
3.	Bangladesh Tobacco Company Ltd.	3.55
4.	Glaxo Bangladesh Limited.	1.67
5.	Pfizer Laboratories Bangladesh Ltd.	8.37
6.	Aramit Limited	25.49
7.	ICI Limited	6.41
8.	Reekitt and Coleman	10.45
9.	International Tank Terminal	50.00
10.	International Oil Mills Limited	50.00
11.	Hoechst Pharmaceuticals Limited	50.00
12.	Berger Paints Bangladesh Limited	42.33
13.	Organon Bangladesh Limited	23.00
14.	S.A.F. Industries Limited	13.64
15.	Siemens Bangladesh Limited	31.66
16.	The General Electric Company Bangladesh Limited	25.47
17.	Fisons Bangladesh Limited	51.19
18.	Lever Brothers Bangladesh Limited	39.25

Source: Policy Implementation and Analysis Group (PIAG) Notes on Privatization in Bangladesh, June 16, 1994, Dhaka, pp. 18-19.

TABLE - 13**SALE OF GOVERNMENT SHARES IN MULTINATIONAL COMPANIES FOR 1994-95**

S.No.	Name of Companies	Sale of Shares (%)
1.	Hoechst Pharmaceuticals Limited	50.00
2.	Organon Bangladesh Limited	23.00
3.	S.A.F. Industries Limited	13.64
4.	Siemens Bangladesh Limited	25.19
5.	Fisons Bangladesh Limited	25.19
6.	The General Electric Company Bangladesh Limited	25.47
7.	Lever Brothers Bangladesh Limited	39.25
8.	International Oil Mills Limited	50.00
9.	International Tank Terminal Ltd.	50.00
10.	Berger Paints Bangladesh Limited	42.33.

Source: Policy Implementation and Analysis Group (PIAG) Notes on Privatization in Bangladesh, June 16, 1994, Dhaka, p.22.

TABLE - 14**PRIVATIZATION PROGRAMME FOR STATE OWNED ENTERPRISES DRAWN UP BY THE PRIVATIZATION BORAD FOR 1994-95**

S.No.	Name of Sectors/ Enterprises	No. of Units to be privatized	Sale of Shares (%)
1.	Textiles	11	100
2.	Steel and Engineering	8	100
3.	Chemical	10	100
4.	Sugar	10	100

Source : Compiled and Computed from PIAG Notes on ' Privatization in Bangladesh', June 16, 1994, pp. 20-22.

The government was determined to create a smooth as well as strong private sector in Bangladesh. So, in view of this an attempt was made to create a favourable climate for foreign investors to come forward to do their business absolutely in their own way as well as forming joint venture with collaboration of Bangladeshi entrepreneurs. Hence, the government decided to sell the shareholdings of the multinationals to private sector so that the foreign investors as well as indigenous entrepreneurs would be more attracted.

Privatization programme for State-Owned Enterprises drawn up by the Privatization Board for 1994-95 has been shown in table -14. It is seen from the table that the Board has selected four categories of enterprises to be put under privatization up to hundred per cent, i.e. textiles, steel and engineering, chemical and sugar, 11 enterprises from textiles, 8 from steel and engineering have been adopted for privatization. 10 enterprises have been chosen for privatization from chemical and sugar each. It is worth notable that seven textile mills, one sugar mill and a few other smaller State-Owned Enterprises (SOEs) are under different stages of privatization. Two textile mills, another sugar mills and a blade factory are in the process of tendering. Further it may be mentioned here that besides direct sale through tender, Board is envisaging to privatize SOEs through the Stock Exchange and also to the workers and employees.

5.5 Emerging Issues Pertaining To Privatization Programme

From the foregoing analysis as regards the ongoing implementation of privatization policy some burning issues have emerged which need to be critically examined in order to evolve strategies for effective future privatization in Bangladesh. These issues may be adumbrated as follows:

- i. Lack of preparations of transactions, such as incomplete identification of assets and liabilities, unrealistic valuation of enterprises (too high or too low).
- ii. Lack of transparency in the procedure.
- iii. Application of limited modality in privatizing SOEs.
- iv. Privatization limited to only small and loss making enterprises.
- vi. Resistance from bureaucrats, management of SOEs, leaders of trade union etc.
- vi. Labour opposition.
- vii. Resistance to privatization from political parties.
- viii. Lack of co-ordination with concerned Ministries.

- ix. Lack of clear cut policy on privatization.
- x. Lack of political commitment to privatization.
- xi. Lack of proper Institutional mechanism.
- xii. Slow process of privatization.
- xiii. Conceptual misunderstanding regarding privatization.
- xiv. Problem on technical issues.
- xv. Lack of proper regulatory framework.
- xvi. Lack of public education programme.
- xvii. Absence of post-privatization monitoring system.
- xviii. Absence of strong capital market.
- xix. Lack of sufficient foreign participation.
- xx. There was no proper selection procedure of proper buyers.
- xxi. Absence of privatization Master Plan.
- xxii. External constraints to privatization.

Proper preparation of transactions for sale is an important precondition to the privatization of SOEs successfully. 'In most previous privatization programmes in Bangladesh, preparation for sale had not been properly carried out rather the business tended to be sold as is where is²⁷. As a result, there was a question regarding existence of quantity and equity of the privatization. Appropriate methods of valuation of assets and liabilities were not followed which resulted in unrealistic valuation of enterprises for privatization.

The procedures followed for privatizing SOEs in the past were not clear and justified. The tender procedures were faulty and corrupted. The valuation of assets were not proper and the workers were not paid off in case of closures of the enterprises. ' There was allegation that bidders were provided with inadequate or misleading informations and new owners were often saddled with undisclosed obligations and nonexistent assets.'²⁸ The past privatization processes were not in favour of creating an atmosphere for running the divested enterprises. Some times, 'stiff restrictions and conditions

were imposed on the new owners which restricted product diversification and future expansion and under certain circumstances jeopardized the retention of ownership - ultimately undermining the viability of the enterprises.¹²⁹ As a result, according to World Bank, 'more than 49 per cent of the divested units had to be closed down for one reason or the other'.³⁰

In the past, only a limited number of techniques for sale of assets were used for privatization of SOEs through closed or open bidding. Another effective method such as sale of shares, management contract, Employee buy-out, Boo-Bot etc. were not followed. Divestment was limited to small and loss making enterprises only which could not attract potential buyers, as a result, the programme was not successful as expected.

There was resistance to privatization from various corners like, bureaucrats of controlling ministries, management of SOEs and leaders of the respective trade unions, because privatization protected their vested interests from SOEs. It has been observed that pilferage has been the major cause of losses of SOEs followed by mismanagement. Mismanagement has often existed not so much because of a lack of managerial capabilities, but rather as a convenient cover for pilferage.³¹ The bureaucrats of the controlling ministries often diverted resources from the SOEs, as a result, those enterprises suffered from shortage of funds. 'These allegations often resurface during the workers agitations against the policy of disinvestment'.³²

Labour issue is one of the most sensitive issues in privatization. There was a common feeling of fearfulness among the workers in the SOEs that they would lose their jobs due to privatization. Because everybody realises that those overstaffed will be rapidly retrenched under private ownership. So, 'labour opposition has been the second most significant impediment to privatization, and has infact received wide publicity as the most powerful roadblock to the process'.³³ The major political parties in Bangladesh opposed to privatization policy and their negative attitude blocked the road for privatization in many ways.

There must be co-operation between the ministries concerned such as between the Ministry of Industries, the Ministry of Finance, the Ministry of Commerce and the Privatization Board. The Ministry of Industries would have to co-operate to get all the available informations regarding the SOEs to be privatized. The Finance Ministry is responsible for all types of budget of SOEs including the Privatization Board and Agencies. So, it can put the restrictions on any of the SOEs for its bidding or privatization. The role of Commerce Ministry is to bring out all kinds of business rules and regulations including export and import in time. If these rules are not conducive to the private sector enterprises then the privatization move would fail.

It has also been found that the bureaucratic red-tapism often slows-down the process of privatization creating frustration among the potential entrepreneurs.

There was no clear cut policy regarding privatization. No policy measure was

taken to widen the ownership spectrum of the privatized industries and no attempt had been initiated to motivate workers and employees of the privatized industries to work diligently. There were policy anomalies also as a result of lack of co-ordination between the Ministries. 'In many areas a wide gap existed between announcement of policies and actual implementation'.³⁴

Privatization is an intensely political process and involves significant social engineering'.³⁵ So, without a clear political sanction, it is very much hard for a privatization programme to proceed on. In case of Bangladesh, there was lack of serious commitment from the government and political parties as well.

Institutional backup is the important factor for successfully implementing the programmes of privatization which was not properly adhered to in Bangladesh.

The whole privatization process has not been smooth at all in Bangladesh. It has been much slow. According to World Bank, 'in Bangladesh it will take the private sector in excess of 40 years to reach investment parity with the public sector'.³⁶

There is a misunderstanding of concept regarding privatization in the country. Many people still do not recognise that privatization does not have to be completed sale of SOE. A broad-based definition of privatization entails transfer of activities and functions of SOEs to the private sector. There are other standard forms of privatization also. The problem therefore lies as to how to decide the sequence and speed of introducing the reform programme of privatization in a country like Bangladesh.

Some technical issues are involved with the policy of privatization which need to be solved. For example, privatization raises a question on finance that what kind of financial strategy should be adopted to achieve a particular privatization objective. Tax structure is also an important factor in this connection. Legal aspect of personnel is another crucial element which must be considered significantly. But these factors have not yet been restructured sufficiently in Bangladesh.

An appropriate regulatory framework is essential in respect of market economy and to improve efficiency and productivity. The components of regulatory environment should entail the following.³⁷

- i. Investment regulations,
- ii. Foreign Exchange Management,
- iii. Monetary and credit regulation, including interest rates,
- iv. Commercial law in terms of debt enforcement and
- v. Management of companies competition and safety issues.

In Bangladesh, the regulatory framework in the above mentioned spheres is

very weak creating impediments in the smooth conducting of privatization programme.

'Investment regulatory functions are burdensome. Wage rates are becoming uncompetitive compared to other low income countries. High real interest rates, bureaucratic problems in State Banks, and extreme risk aversion in private Banks make credit very difficult to secure. The legal environment is ineffective. High corporate tax, wide spread tax evasion are common. The general infrastructure in terms of energy, communications, transportation, water and waste disposal ranges from barely adequate to very poor.'³⁸

The government of Bangladesh did not chalk out any educational campaign highlighting the concept, merits, demerits, gains and concept of ownership etc. so that the people of this country could come forward in favour of privatization. A general consensus about privatization did not grow at all. This is one of the hindrances to privatization programme.

The government of Bangladesh has taken a mass privatization programme and a large number of SOEs have already been privatized. But post privatization monitoring system did not exist by which the functions and activities can be justified that whether their activities are really conducive to the economic growth or not.

Successful privatization programme needs a well structured large capital market in which shares can be traded properly.

Accelerated privatization is a pre-requisite to the expansion of the capital market and privatization of the SOEs and government run utilities sectors will not only unload the burden of the exchequer but will also attract large investment in the capital market. On account of not sufficiently developed capital market, insufficient regulatory and enabling environment, lack of co-ordination between line Ministries etc. creating policy anomalies have adverse cumulative effect on the flow of FDI (Foreign Direct Investment) in Bangladesh.

In the pre-privatization programme, there was no 'any criterion by which the selection committee can determine whether the buyers can ensure professionalism in managing the enterprises to be sold to them.'³⁹ Many of the buyers were not the real entrepreneurs and they did not have experiences in managing industrial units. This was one of the major impediments, to successful privatization.

Privatization Master Plan indicates the correct strategies and transparent action plans by identifying sector-wise SOEs for a time bound privatization programme. But in Bangladesh uptillnow the privatization programme has been followed without any such Master Plan.

Presently, the Privatization Board in Bangladesh is facing some obstacles to

speed up the privatization programme which are as follows:⁴⁰

Firstly: the response of the prospective buyers to the international tenders were poor. None of the established local entrepreneurs had participated in these bids. Even if valid bids were available, quotations for the highest bids were mostly below the networth of the enterprise tendered for sale.

Secondly: the chartered accountant firms or consultants who were appointed to value the assets and liabilities of the enterprises to be privatized, had to face resistance from the workers and often received very little co-operation from the mill management in collecting requisite informations and data. This had greatly delayed the tender process, affecting adversely the privatization move.

Thirdly, the enterprises that were selected for sale had mostly worn out machineries and had also liabilities that were manifolds in comparison to the fixed assets. This also perhaps had kept away the established local entrepreneurs from participating in the tender bids of the SOEs.

External Constraints To Privatization:

Some external constraints are also working as hurdles to the process of privatization in the developing countries, like Bangladesh:⁴¹

- i. Unstable economic conditions;
- ii. Unstable political systems and weak democracies;
- iii. Highly concentrated industrial sectors;
- iv. Inadequate infrastructure;
- v. Limited access to equity financing;
- vi. High and growing unemployment levels;
- vii. Limited privatization, restructuring or merger and acquisition experience;
- viii. Professional sectors - lawyers, accountants, banks, etc. unprepared to cope with the process;

5.6 Conclusion:

From the very beginning of the Independence (December 1971) in Bangladesh, the successive governments declared different Industrial Policies. The first Industrial Policy of 1972 was the carrier of socialistic approach to the economy. The revised Industrial Policy of 1975 was the introducer of disinvestment policy. The New Industrial Policy of 1982 was the pioneer of privatization programme which made the provision for denationalization of jute and textile mills. The door of privatization was opened in the Industrial Policy of 1986-making provision for 51-49 plan." Thus the privatization policy was confirmed for further continuation with the declaration of Industrial Policy of 1991. There was no proper institutional mechanism for effectively implementing the privatization programme. However, later on, the government set up the Privatization Board dissolving all previous

committees.

About 565 enterprises were privatized during the three phases. In the first phase (1972-75) 156 enterprises were privatized, 227 enterprises were privatized in the second phase (1976-81) and in the third phase (1982-89) 107 enterprises were privatized. After this, a vigorous privatization programme was chalked out for privatizing a large number of SOEs. And accordingly larger number of SOEs were selected for disinvestment under different categories.

In implementing privatization programme in Bangladesh, some burning issues cropped up; lack of proper valuation of assets, lack of transparency in the procedure, lack of regulatory environment, lack of strong capital market, lack of co-ordination among the concerned authorities etc. are some of the prominent issues which need to be solved.

In order to sort out these issues, well researched, compact, prospective strategy package is the need of the hour to make the privatization programme in Bangladesh successful, productive and growth-oriented. The next chapter would highlight at length the strategies to be evolved for effective privatization programme in future.

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CHAPTER - VI

STRATEGIES AND POSSIBILITIES OF FUTURE PRIVATIZATION PROGRAMME IN BANGLADESH

In the previous chapter, a detailed analysis as regards privatization programme adopted by the government of Bangladesh and emerging issues thereof were critically discussed. The present chapter analytically deals with the approaches of privatization, strategies and future potentials of the privatization programme in Bangladesh. The subject-matter of this chapter has been designed in the following manner:

- 6.1 Introduction
- 6.2 Approaches Of Privatization.
- 6.3 Strategies And Possibilities Of Future Privatization Programme
In Bangladesh.
- 6.4 Conclusion.
- References.

6.1 Introduction:

Significant reform measures as regards privatization of Public Enterprises have been introduced in economies around the world since the beginning of the eighties. Bangladesh is no exception to this changing phenomenon. The current reform measures are focussed on 'liberalization' and market oriented policies and instruments with some general features, such as, more intensive use of private agents, encouragement of competitive markets by decontrol, deregulation, disinvestment and adoption of an outward-looking trade regime, and less use of subsidies etc.

Keeping these facts in view, the government of Bangladesh adopted a vigorous reform programme of privatization through numerous Industrial Policy announcements. The disinvestment of State - Owned Enterprises in Bangladesh has been mainly performed in three important phases i.e. from 1972-75, 1976-81 and from 1982-89. In all, 565 SOEs were privatized during these phases. From the NIP of 1991, some more SOEs have been privatized under different categories viz. through Disinvestment Board and Sale of government shares in Multinational Companies etc. However, the programme of privatization in all has not been so successful as expected. In fact, the plan, method and procedure of privatization were found to be faulty resulting into emanation of numerous burning issues in implementation of privatization programme in Bangladesh. A pragmatic approach is needed to deal with these issues. The succeeding paragraphs are devoted to evolve a set of strategy to deal with these issues for effective future privatization in Bangladesh.

6.2 Approaches of Privatization:

Privatization throughout the world is being carried out through various techniques. There may not be limited techniques for a workable privatization programme rather it should be a composite and wide range of techniques realised to meet the country's needs. Specifically in Bangladesh, which method would be adopted mainly depends on acceptability of markets, financial conditions, size of the SOEs and above all, the objective to be achieved from privatization. Multidimensional modalities are better than limited modalities to meet the specific objective. However, some common modalities have been discussed in the forthcoming paragraphs which are adopted and followed in the different countries of the world. A set of modality has also been recommended to be adopted in Bangladesh for effective privatization of SOEs in future.

- 1. Sale of Equity:** Sale of equity is one of the techniques to transfer three

components of organization, viz. responsibility, assets and personnel in partial or complete form. Malaysian government adopted this method for privatizing its power, telecommunication sectors, air lines and shipping corporations to its best advantage.

In Bangladesh, sale of equity concept may be adopted in case of telecommunication and power through Dhaka Stock Exchange which alone would be able to absorb about US \$ 50 to US \$ 60 million per annum.¹

2. **Sale of Assets:** This method can be applied to any SOEs. This refers to the sale of physical assets of the company rather than shares. The assets can be sold individually or collectively and they may be sold through competitive bidding by auction or to a selected party after direct negotiation.

Assets sales may be appropriate where an entire company is not saleable as a going concern. This method can be applied to privatize any SOE.

3. **Management Contracts:** It refers to the contracting of private sector management expertise to manage SOEs for a fee. It involves the transfer of management responsibility and may or may not involve the transfer of personnel. It does not entail the transfer of assets. Malaysia has adopted this method in case of water treatment plant. In Bangladesh, it may be followed specifically for the power sector and service sector as it brings about efficiency through competition. In this method, in fact, the private party always keeps firms competitive in price and quality both to win a contract or to run the risk of loss. Labour and capital are used efficiently in order to lower down the costs. Experience has shown that, ' the immediate savings to governments and tax payers is normally in the range of 20-40 per cent.'²

4. **Lease of Assets:** This model of privatization indicates the transfer of right to use assets for a specific period of time in return for certain payments. The lease period depends on the type of project. It is usually applicable in case of fixed assets. ' Lease rentals are based on future business prospects and not on the current value of the assets and payments are calculated based on a stream of income and expenditure flows over the lease period.'³ The private party ascertains the commercial risk of operation and maintenance of assets. In Bangladesh ' this method could be useful for operation and maintenance of highways, parks, ports, museums and airport'⁴.

5. **Concessions:** In this form of privatization, the private sector bears all liabilities and responsibilities regarding capital expenses and

investments. For this, they use to anticipate the bulk of risks. In Argentina, this technique has been used for privatization of telecommunications and railways. In Bangladesh too, this method might be used in the utility, infrastructure like power, telecommunications and transportation sector.⁵

6. **Public Sale of Share:** In this method, the share of SOEs are sold to the public at large, partially or wholly through stock exchange. Wide spread ownership is extended by this method and people can participate directly in the success of industry by which they are encouraged to know the company's affairs i.e. how company works into the process of wealth creation and into the need for profits and efficient management.

'Public offerings demand that the enterprise be a going concern with a reasonable earnings record or potential, that a full body of financial, management and other information is available, that there is discernible liquidity in the local market, and that the equity markets are developed'.⁶

7. **Private Placement of Share:** This method refers to sell shares of SOEs to a more selected group of potential buyers instead of at the public at large. The buyers can either be another entity or a group of investors. The privatization can be full or partial. Adhoc procedures are followed to identify potential buyers. Basically, this method may be applied in the absence of developed equity market. This method does not create a broad based interest group to support privatization. Sometimes, for gaining support from management and workforce, some shares are allocated to them.
8. **Management/Employee Buy-out:** In this technique, management or employees or both together can buy the majority shareholding of the companies to be privatized. This is an important tool for gaining political support for the privatization without which the process may be blunt. The public may expect better service from them. Many countries of the world had adopted "Employee Stock Ownership Plan" (ESOP) and this was proved to be effective method. Bangladesh can also apply this method vigorously in privatizing the different SOEs.
9. **Dilution of Public Ownership :** In this strategy, some equities of SOEs are sold to the private party. But it rarely changes ownership and control, and thus it is only a partial water-down form of privatization. This method is used only when the government has doubts about privatization and lack of sufficient support for it.

This method can be useful if Bangladesh government desires to introduce some private capital know-how to a public enterprise. But it

can be only an intermediary step on the path to full privatization.

10. **Liquidation:** It means to close down the economically unviable enterprises. Sometimes, it is difficult to perform for the government because it is a question of failure. It allows government to sell the components of the assets separately. In this method, government or owner is usually responsible for any liability of the enterprise remaining after the end of the process of liquidation and the dissolution of the enterprise. In Bangladesh, this technique can be applied for financially and economically unviable enterprise. 'Liquidation often enables quick and efficient divestiture without the troping and sophistication of bankruptcy, as such, divestiture technique is preferred in many developing countries'.⁷
11. **Marginalization:** It entails gradual reduction of an SOE's budget and operations and escalating a replacement in the private sector. Sometimes it is called 'quiet liquidation'. This method has been proved useful in many cases in many countries of the world. "It is politically less volatile than outright divestitures".⁸
12. **Reprivatization:** It means that a business enterprise that was originally in the private sector and was nationalised afterwards, is turned over to the private sector again. This method has been applied in many developing countries because of lack of worthy capital markets. In Bangladesh this method was followed at early privatization programme in the form of denationalization.
13. **Back Door Privatization:** The concerned ministry of a certain type of economic activity may decide to lease it to some individual or a group of individuals which is not performing well. For example, in Bangladesh the tourism Ministry may transfer a poorly run hotel to private party who can make it remarkable change in order to improve services.
14. **Boo and Bot:** In Boo (Build-Operate-Own), the private company builds and operates a project and retains the ownership for unlimited time or indefinitely. In BOT (Build-Operate-Transfer), after building a project by a private company is transferred to the government or to a local company after a certain period of time (generally 10-35 years). This period must be sufficient for getting back of project financing and to earn a reasonable return from the project. Under this techniques, the private sector project company is usually a foreign or joint venture consortium of engineering, construction and supply firms. They arrange the finance for the project from commercial lenders, often supported by bilateral and multilateral institution. The suitable fields of applying these techniques are roads and highways, water supply, ports, airports, bridges, power projects, telephone system, electricity generation, gas distribution etc. Many Asian countries have applied these

techniques.

In BOO-BOT techniques, various individuals or institutions are involved in implementing these projects, government usually performs some formalities regarding concession or incentive agreements as well as performance or delivery agreements with the project company to ensure high quality of services delivered by that company.

The chart - 1 shows the complicated structure of BOO-BOT project.

The essential features of BOO-BOT arrangement are summarised as follows:⁹

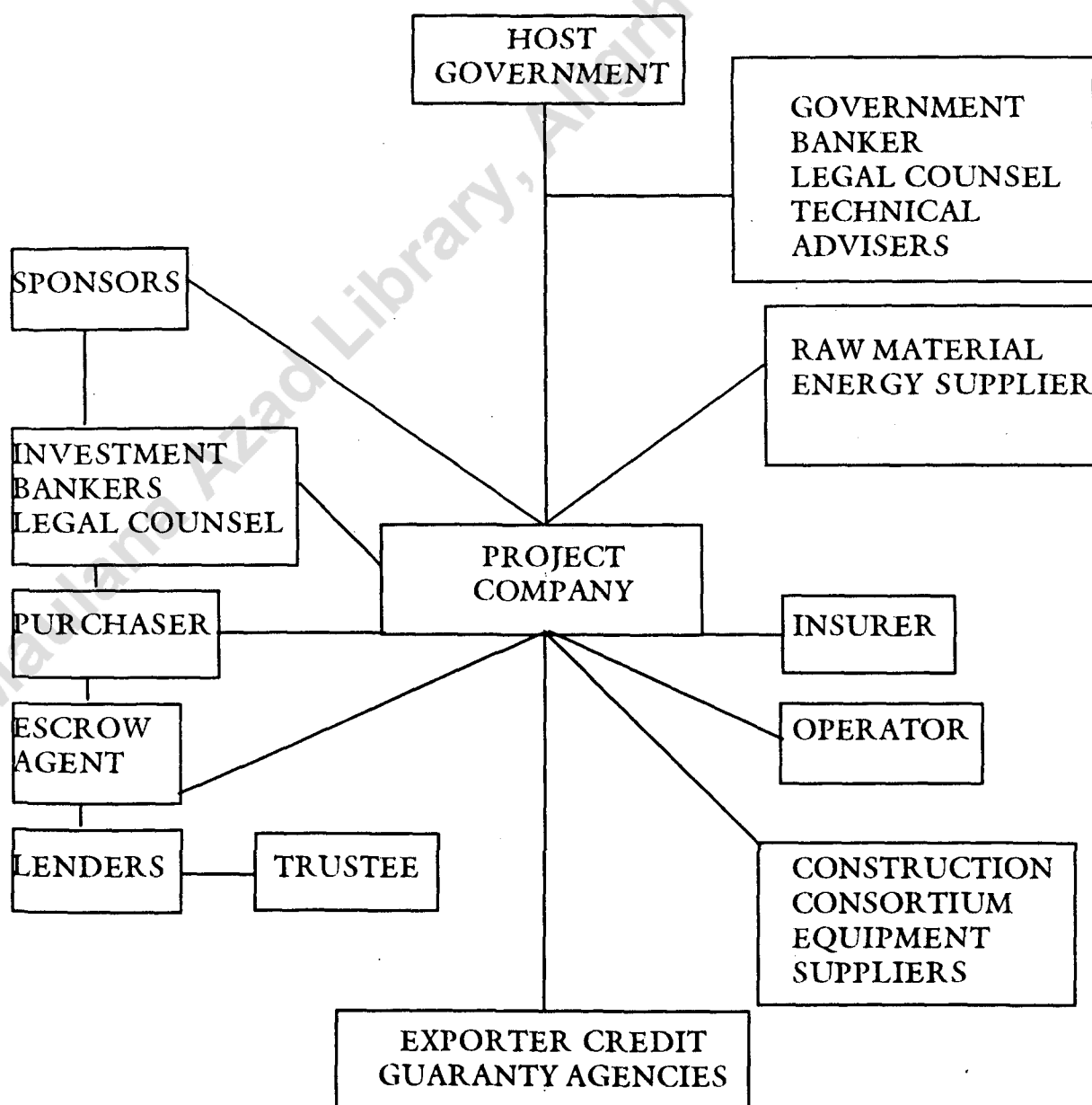
1. Project risk are clearly separated from country risk, lender advance money against the cash flow of the project rather than the government's sovereign guarantee.
2. The equity contribution of the consortium members, usually between 10 per cent - 30 per cent of the total project cost, represents an expression of commitment to the project and serves as a cushion against bankruptcy.
3. The nature and structure of BOT schemes vary from project to project, but all are highly complex, but if designed and implemented well, these schemes could have broader application in almost all the developing countries, like Bangladesh. The World Bank's report in implementing BOO-BOT techniques are as follows:¹⁰
 - i. The central BOO-BOT implementing agency must have adequate authority.
 - ii. Initially, atleast, BOO-BOT transactions should be limited to modest size and relatively simple projects.
 - iii. Government will need to protect the public interest through exercise of its inherent regulatory function.
 - iv. BOO-BOT models should be flexible, fast responding and highly professional.
 - v. BOO-BOT models can fit well with the application of other privatization techniques.

It may be useful for Bangladesh to follow the experiences regarding BOO-BOT from different countries like, U.K. Pakistan, Philippines, Srilanka, Malaysia etc. who have successfully applied these strategies in their privatization programme.

15. **Contracting Out :** In this form of privatization, there is a contract between government and the private firm to deserve the right to produce and sell the services selected on the basis of competitive bidding and the government bears all the costs of providing service. By creating greater competition among the bidders, government can save funds from contracting out. 'Tough competition will keep the contractor on his toes for fear of losing the contract'.¹¹

CHART - 1

BOO-BOT Project Structure



SOURCE: World Bank Report No. 12138, BD, p.89.

SOURCE: World Bank Report No. 12138, BD, p.89.

All the approaches discussed above are being used in almost all the countries of the world. However, the strategies of privatization should be selected on the basis of calculation of value, considering the line of business and proper identification of buyers.

At present in Bangladesh, two methods of privatization are being followed:¹²

- a. **Sale by International Tender:** Local and foreign private buyers may participate in all such tenders - Association of workers, employees and officers of the tendered enterprises may also offer bid for purchase of the enterprise.
- b. **Sale by Public Offer of Shares:** Government owned shares in different companies and share of the SOEs converted into public limited companies may be sold to the general public either directly or through the stock exchange. 'Tender method has the advantage of fairness and certainty in terms of timing but has the disadvantage of not necessarily maximizing the price.'¹³

For successful privatization, some other set of model can be adopted in Bangladesh, like open auction, transfer of shares through the securities market, employee takeover, management contract, joint public-private ownership, BOO-BOT, leasing out etc. Successful privatization programmes of other countries can be observed such as, Malaysia, Argentina, Mexico etc. However, it is noticeable that recently new privatization policies have been passed and there have been provisions for the sale of share of the units to be privatized through the stock exchange employee take over that 'workers and employees can purchase these units by adjusting their gratuity and providend fund dues'.¹⁴

However, the proper set of model for privatization may vary from case to case and country to country. Much more depends on the sophistication and condition of the local economy in general. The goal will have to be built up on a broader, and more dynamic economic base.

6.3 Strategies And Possibilities Of Future Privatization Programme In Bangladesh:

Future Privatization Strategies :

The government of Bangladesh should continue privatization programme with the following set of strategies.

An active employee supporting programme should be adopted,

and voluntary departure schemes should also be strengthened.

Retraining and credit based employment schemes should be chalked out and implemented.

A detailed financial analysis should be conducted in all cases of privatization for proper valuation of assets.

It should be assured that no implicit guarantees exist in respect of SOEs.

Credit provided by government for financing privatization must be on a fully commercial basis.

Privatization must be opened upto segments of the society who have not previously participated in the programme i.e. middle class, labours, employees and emerging entrepreneurs.

Some of the larger SOEs like utilities and infrastructure should be involved with the privatization programme in parallel with other sectors.

Government should formulate an SOEs policy and introduce a time bound programme of reforms.

A public relation programme is necessary to build a broad-based support for the programme.

A post privatization monitoring system should be developed to evaluate the performance of privatized enterprises.

The Privatization Board should be strengthened on sound footing giving more autonomy to conduct their activities.

A smooth suitable regulatory climate should be provided for the private sector.

Possibilities:

To realise the potentials of privatization, it is essential to understand its impediments first. Various misconcepts preached about relative efficiency of the public and private sectors by the defenders of public authority and control, various legal, economic and institutional barriers act as obstacles to smooth functioning of the private enterprise system. So, in assessing the potentials of privatization one must be careful about those factors. However, the future potentials of privatization in

Bangladesh are brighter subject to the following conditions:

The people of the country must understand regarding the concept and rationale of the privatization programme in the country as well as they must have a strong belief that the programme will bring significant benefit both to the government and the nation as a whole.

Government has to provide a suitable environment for running the private sector, specifically an appropriate regulatory framework has to be established and strengthened so that the private enterprises can work smoothly and consumer's interest are protected in terms of price, quality and reliability of service as well.

Government has to layout a road map that where it is and where it wants to go, i.e. Industries have to be specified to be privatized and chalkout a plan that how they would be privatized.

Government should follow an approach of "perform or perish" i.e. government will clarify a few enterprises which will remain in the state sector for a certain period of time. If those enterprises fail to achieve their objectives set for them within that period of time, then they must be divested. 'This approach of "perform or perish" is the most appropriate way to manage the transition in the phasing of the government's privatization programme.'¹⁶

For every government, it may be essential to keep some industries in the public sector for political and social purposes. So, the government should think for another way to encourage, assist and co-operate with the private sector in new growth area.

In privatizing politically powered SOEs, government can also employ the marginalization and 'quiet liquidation' technique, used so effectively in other countries and 'that has been so successful in the local fertilizer distribution project.'¹⁶

Government should carefully define the complimentary roles of the public and private sectors in the economy. 'Special attention must be accorded to ensure forceful and coordinated implementation of privatization and private sector development programmes.'¹⁷

SOEs assets should be valued realistically. Since the valuation is a very complex and technical matter, so extra care should be taken in valuing the assets of SOEs. It should not be too low or too high. The government should take care that the transaction would be a way to obviate losses and therefore should make it clear. It should be mentioned here that 'valuation of assets must be done properly and they should be offered for sale based on the net worth estimated by the experts, not as political expediencies'¹⁸:

The labour question is one of the most vital and disputable issues concerned with privatization of SOEs. Labour would never oppose privatization if their interests are protected. So, research should be conducted on labour and employee aspects of privatization and accordingly privatization should be adopted.

'In a number of countries, developed and developing, ESOP (Employee Stock Option Programme) has been useful tool for lessening labour's fears and criticisms of privatization'.¹⁹ Workers become stake holder in the enterprise in this plan. So, being owner, they work diligently and change their attitudes towards management. In Bangladesh, this method may be applied in privatizing SOEs. Recently, the government revised the privatization policy and there is an option for workers that they can participate in bidding and own the enterprise. This is a good attempt, but it should be implemented properly to reap the benefits of this method.

An education programme should be chalked out in order to apprise people of privatization. No government of Bangladesh did it in the past. In this way, government can appraise the opinion from different corner which might be convenient and influential for privatization.

The relationship between SOEs and the private sector should be improved. For this, government should stimulate the public sector organization to co-operate with the private sector in moving up economic progress. Keeping this in view, the government should strive to ensure that 'favouritism is not shown to SOEs over private enterprises in the allocation of resources, purchasing, sales contracts and the like'.²⁰

Experience from other Asian countries could be followed in Bangladesh where the privatization programme have successfully been carried out such as, South Korea, Taiwan, Malaysia, Singapore, Thailand, Japan, Philippines, Srilanka etc. It may be the most productive to visit these countries and observe the aspects of privatization and private sector development.

'Internship of three to six months should be explored, especially for Bangladeshi civil servants dealing with privatization matters'.²¹ The Privatization Board may be the agency to co-ordinate this type of programme with those countries.

A post privatization monitoring programme should be adopted with a view to evaluating the performance of privatized enterprises as well as to disclose it to the people of the country so that they can put their opinion in regards to any post privatization difficulties.

Co-operation between the privatization Board, Ministry of finance and Ministry of Commerce must be maintained in order to speed up the programme. It is most important prerequisite to successful privatization in Bangladesh.

Privatization will become more attractive to prospective investors ' once it is broad based to include both manufacturing and nonmanufacturing profitable and loss making enterprises for disinvestment.²²

There should be a provision for private enterprises both indigenous and foreign to operate the reserved sectors where SOEs operate in a strong oligopolistic environment, like energy, telecommunication and communications.

A specific and realistic time frame should be defined to privatize all SOEs and the criteria for selecting enterprises for early privatization will have to be defined and declared as well . There should be regulations that no SOEs can take borrowings to recapitalise in order to make up their failure to achieve specific goals.

Regulations will have to be promulgated and methods will have to be defined which will ensure complete transparency of the valuation, bidding and contracting in the disinvestment process.²³

Provision should be made in the rules and regulations under which foreign investors can participate in bidding for on non-discriminatory terms, can own and operate the divested enterprises and regulation should also allow them to establish, own and operate new units.

The public enterprises which are not viable financially and economically and do not bear any hope for the future, should be liquidated. This will minimise government losses.

Before selecting a buyer, a proper investigation should be conducted for examining the entrepreneurship background and capabilities of the interested parties. The decision makers should not be biased with political pressure.

In all privatization, in all countries, the transaction must be transparent.²⁴ In order to make it fully transparent, the prospective buyers/ bidders should be provided with all informations regarding the tendered SOEs and they should also be encouraged to make independent evaluation of SOEs they are bidding for.

'The primary objective of privatization should be to increase efficiency

not to maximise revenue.²⁵

'The more market friendly a country's policy frame work - and appropriate policy is correlated with capacity to regulate the less difficulty it will have in privatizing an SOEs, and the higher the likelihood that the sale will turn out positively.²⁶

Privatization Master-Plan is needed in Bangladesh which will formulate all the strategies in regard to gradually privatizing SOEs, 'Such a Master Plan however should be reached in the basis of consensus reached among all major political parties and in active consultation with the private sector.²⁷

Capital market development is an essential factor of accelerating privatization by which all entrepreneurs can contribute to the national economy. But as ill luck would have it, the capital market in Bangladesh is not as large and developed as needed. There is limited number of shares which is the main causes of slow expansion of the capital market. This should be overcome by taking necessary measures, stated below²⁸:

- a. that accelerated privatization is a prerequisite to the expansion of the capital market and privatization of the SOEs and government run utilities sectors will not only unload the burden of the exchequer but will also attract large investment in the capital market.
- b. that the State- Owned Enterprises (SOEs) and the large public sector corporations should be restructured and their shares be floated in the capital market.
- c. that Mutual Funds through massive local and foreign private participation be introduced in the share markets.
- d. that 100% foreign owned large firms in the Export Processing Zones (EPZs) should be persuaded to be enlisted with the Stock Exchanges.
- e. that the utility sectors like gas, electricity, telecommunication etc. should be opened to the private sector as soon as possible through flotation of shares.
- f. that disparity in the tax structure has been discouraging the secondary stock market. It is therefore, recommended that no capital gain tax should be applied to the transaction in secondary market.
- h. that the difference of tax rate between the listed and non-listed companies should be minimum fifteen per cent.

- i. that in order to cope with the global changes to attain international standards, the foreign audit firms be allowed to participate in audits and according of companies coming into public issues.
- j. that saving is one of the major factors for increasing investment. The contribution of savings to the GDP (Gross Domestic Products) is low in Bangladesh in comparison with other South and South East Asian countries. The present tax policy discourages savings. So, levy and excise duties on small savings should be withdrawn.
- k. that entrepreneurs having no track-record or history of performance but rich in knowledge, know-how and technology be allowed to come up with "Green Field" projects in the Capital Market.
- l. that the merchant banks and asset management companies should be encouraged to function as soon as possible.
- m. that in order to sustain buoyancy in the capital market, new securities instruments such as government bonds, housing bonds and municipal bonds etc. may be introduced.
- n. that the relevant law should be amended to bring trust funds such as pension, gratuity and provident fund into the capital market.
- o. that policy making functions of Stock Exchanges should be separated from their day to day operational and executive functions in order to make their works transparent and systematic.

In order to lessening the labour unrest, the interests of the workers should have to be protected and keeping this view, the government should fix up their wages after discussing the matter with the representatives of the private sector.

With a view to developing the labour-management relations, a consultative management system should be introduced or encouraged. This will help to remove the crisis of industrial relations in both public and private sectors. Further, 'if privatization policies are to be carried through with a minimum economic, social, and political stability and efficiency, it is indispensable to promote a close, constructive dialogue between public authorities, employers organisations and trade unions and this dialogue must be maintained before, during and after privatization.²⁹

The effective strategies like, BOO-BOT should be applied in order to attract foreign private investments, joint venture etc. which

would be helpful for the economic development of the country.

The professional efficiency is a vital factor to be increased by providing necessary training. In this regard, the government as well as all development agencies should come forward through serving business information giving consultation service and providing training to entrepreneurs.

The Privatization Board should be provided sufficient authority for its effective performance. It should also be given autonomy to take any decision regarding management, co-ordination and implementation of privatization policy. In case of small industrial enterprises, it may privatize those units directly and in case of large units, it should take the advice from cabinet division.

Support for privatization from general mass is a vital factor for making the programme of privatization successful. So, there may be an agent from the public sector. And if necessary professionals and intellectuals can be appointed.

6.4 Conclusion

From the foregoing discussion it may be observed that the success of privatization depends on adoption of appropriate strategies, regulatory and enabling environment. Appropriate method of privatization would depend on specific areas of privatization; in this regard successful privatization programme of other countries could be supportive. Further, macro-economic policy and national political commitments to privatization are very essential for the success of privatization. In Bangladesh, to make the programme of privatization a success, following strategic measures, inter alia should essentially be adopted.³⁰

- a. That privatization is a total economic system and not confined to disposal or transfer of few State- Owned Enterprises (SOEs) from the public sector to private sector. Unfortunately in Bangladesh privatization has remained restricted to SOEs being transferred to private sector and, that too, only in respect of sick, financially losing and technologically obsolete industrial units. This is rather a negative approach to privatization policy. This attitude should be changed for rapid privatization.
- b. That political support which is fundamental to any policy of privatization is lacking in Bangladesh. Political leadership should have clear vision of what is expected through the process of privatization. The present half-hearted support is doing more harm than good and helps to keep the genuine buyers away. Total political support irrespective of parties is needed for privatization.

- c. That a reform in the bureaucratic set up and system is essential to expedite the reforms aimed at privatization.
- d. That laws on liquidation and bankruptcy should be brought into being without any further loss of time. Sick SOEs should be liquidated rather than sold in an unfriendly market.
- e. That large highly sensitive sectors of economy such as telecom, energy, transport including air transport, radio and television, highways, seaports and airports etc. are required to be privatized which will enhance liquidity in the capital market.
- f. That in order to expedite the privatization process, close co-ordination between the Privatization Board (PB) and the concerned industries should be ensured to make the process transparent, accountable as well as for paying off the workers/ employees of the privatized SOEs.
- g. That in order to bring about a discipline in the banking sector reform must be made to fix responsibilities and ensure accountability.
- h. That in order to bring about privatization of the economy the necessary apparatus should be structured in such a way that it is representative of strong political will and the attendant supportive rules and regulations. To achieve that goal, an immediate action plan involving both public and private sectors should be framed to accelerate the process of privatization.

The heart of successful privatization is development of strategy, formulation of policies and evolution of right type of bureaucracy to suit the emerging global economic culture.

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CHAPTER-VII

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of conclusions followed by suggestions and recommendations derived from the statistical analyses and interpretations made in the preceding chapters of the present study. The subject matter of this chapter has been presented in the following order:

7.1 Findings And Conclusions - A Global Panorama.

7.2 Findings And Conclusions Pertaining To Privatization Programme In Bangladesh.

7.3 Findings vis-a-vis Statement Of Hypotheses.

7.4 Findings And Conclusions Relating To Emerging Issues.

7.5 Suggestions and Recommendations Regarding Prospective Strategies For Effective Implementation Of Privatization In Bangladesh.

7.1 Findings And Conclusions - A Global Panorama:

Following the second devastating world war (1945), most of the countries of the world began to create State-Owned Enterprises (SOEs) with a view to attaining economic growth and social objectives. The SOEs phenomenon got the requisite impetus in the decades of 1960s and '70s occupying the status of the "commanding height of the economy" all over the world, either socialist or capitalist countries, developed or developing countries.

However, unfortunately, after '70s this SOEs phenomenon started to change chiefly because of nagging performance of SOEs as they were proved inefficient and unproductive. Even, in many countries, SOEs became an unsustainable burden to the government. Therefore, in the decade of '80s the reform programme was introduced in the form of privatization of SOEs. Britain was the pioneer of this. All developed countries like, Italy, France, Australia, Canada, America, etc. had followed this programme as a remedial medicine of SOEs as well as panacea for the economy as a whole. Since all developing countries of the world were trapped in the quagmire of SOEs sombre performance phenomenon, they also embarked upon the privatization movement.

However, due to disintegration of USSR and reunification of Germany in 1989 and 1990 respectively the dominant role of public enterprises was substantially curtailed. Further, on account of creation of North America preferential Trade Agreement (NAFTA) and signing of Uruguay Round Talk under GATT, all countries of the world almost became free to adopt market economy leaving no room for continuance of laggard and haggard SOEs. Keeping this point in view, almost all the countries of the world adopted vigorous reform programme of privatization. The outcome of adoption of the privatization in some of the western countries has been quite successful and proved to be boom for the economic progress and prosperity.

Privatization means transfer of ownership, control and management and decision making power from public enterprise to private entrepreneurs. However, there are various forms and techniques of privatization which are being adopted for privatizing SOEs all over the world such as, sale of assets, management contract, lease of assets, public sale of shares, management employee buyout, liquidation, reprivatization, BOO-BOT (Build- Operate-Own and Build- Operate Transfer) etc.

7.2 Findings And Conclusions Pertaining To Privatization Programme In Bangladesh:

In Bangladesh, the process of privatization began in the decade of early '80s mainly owing to recurring heavy losses by the SOEs. This was beyond the capability of the government to bear the brunt of these ailing enterprises. It

has also been observed from the analysis and interpretations of data in the present study that SOEs in Bangladesh have been incurring losses every year that reached US \$ 500 billion in 1994 and exerted a heavy pressure on the national exchequer. At the same time, they were endangering the economic viability of the nationalised commercial banks taking loans that amounted to US \$ 47 billion as of June 1993 and not paying interests as well as principal. Most of the SOEs were overstaffed and suffered from various problems in their operations, which as a result, impinged adversely on the profitability, productivity and efficiency of the enterprises.

A study conducted on the comparative performance appraisal of SOEs vis-a-vis private sector enterprises suggests that private sector enterprises are faring far better than that of SOEs in terms of profitability, fixed assets, value added as well as productivity of labours. The government hence declared the new Industrial Policy of 1982 for adoption of reform programmes. The door of privatization was opened in the Industrial Policy of 1986. Finally, the promulgation of Industrial Policy of 1991, assured the continuance of the vigorous privatization programme making provision of spreading out the ownership among the general public.

From the very beginning of the programme of privatization in Bangladesh, the government embarked upon the very method of denationalization i.e. to return of the units to Bangladeshi former owners who were deprived of these units on account of war of 1971 resulting into creation of Bangladesh. Disinvestment was another method which was taken up by selling off of abandoned units of those who migrated to Pakistan, through public tenders.

In 1986 the government further endorsed the "51-49 plan" i.e. 51 per cent of share to be retained by the government and the rest of the 49 per cent shares to be unloaded for public subscription through Stock Exchange and Investment Corporation of Bangladesh. Finally, in 1991, a crucial decision was taken up to abolish all the previous provisions by making a new provisions to sell the enterprises wholly through international tender and also sale by offer of shares to the general public either directly or through the Stock Exchanged. A provision as regards employees-workers buyout was also introduced.

7.3 Findings vis-a-vis Statement Of Hypotheses:

The introductory chapter of the present study has evolved in general a couple of hypotheses in broad spectrum of the functioning of SOEs in Bangladesh. The hypotheses are :

- a. That the private enterprises perform more efficiently than public enterprises.
- b. That the State-Owned Enterprises (SOEs) have considerably improved their performance after they were privatized.

- c. That an appropriate strategies are needed to be evolved for further privatizing State-Owned Enterprises (SOEs) in Bangladesh to obviate the of obstacles and stumbling blocks confronted during the privatization process.

On the basis of the data collected and their thread bare analysis made, the inferences to be drawn regarding proof or disproof of the statement of the hypotheses are summarily examined as under:

Hypothesis one: The findings of the analysis of data (Chapter - IV) support the first hypothesis that the private enterprises perform more efficiently and productively than the public enterprises. It has been observed that interms of profitability, labour productivity, value added etc., the private enterprises have fared exceedingly well as compared to public enterprises during the period under reference in the present study.

Hypothesis two: It has been noticed from the analysis that State- Owned enterprises (SOEs) have presented better accounts of performance, after they have been privatized. The privatized enterprises have been able to respond to the changing time. The management of the privatized enterprises are now enjoying full authority to take spot decision if necessary which the management of SOEs did not have. Further, the privatized enterprises have successfully come out of the morass of over staffing that SOEs had. The management as well as employees and workers have now the requisite accountability to the higher authority which in general did not exist in case of SOEs. These findings support the second general hypothesis that the SOEs have considerably improved their performance after they have been privatized.

Hypothesis Three: The findings of the present study have brought to fore that the privatization programme undertaken in Bangladesh till now have some pitfalls also (Chapter V) resulting into serious stumbling blocks in the future privatization process. It is hence, of perforce, that appropriate strategies are needed to be evolved for effective future privatization in Bangladesh.

7.4 Findings And Conclusions Relating To Some Emerging Issues Regarding Implementation Of Privatization Programme In Bangladesh:

After 1991 onward the government of Bangladesh embraced a mass privatization programme. It is seen that from 1972 to 1989 about 565 enterprises including small and large and jute and Textiles were privatized during three phases i.e. first phase (1972-75), second phase (1976-81) and third phase (1982-89). Though in the first phase (1972-75) there was no specific and declared disinvestment programme but afterwards a vigorous programmes of privatization of SOEs was chalked out by the 'Disinvestment Board' and lateron, by the 'Privatization Board'. From time to time, these two agencies are formulating plans and policies regarding privatization of SOEs.

'The Disinvestment Board' under the Ministry of Industries implemented the process of privatization with the approval of the cabinet. In 1986, two committees were formed as 'Executive Committee' and 'Working Committee' to help the Disinvestment Board. Yet, the privatization process did not get the required speed. So, in 1991, Inter-Ministerial Committee on Privatization (ICOP) was formed to gearup the process. Finally, the government established the 'Privatization Board' dissolving all the previous committees in 1993. The Board now has been empowered to undertake all those requisite measures regarding privatization programme whatever seems better and whenever need.

But as ill luck would have it, the privatization programme did not get as much of momentum as was expected. Because the government followed modalities which were limited in their scope and applicability in privatizing SOEs.

However, the previous privatization programme of Bangladesh faced various kinds of problems which were needed to be solved in order to make the programmes of privatization successful.

In most of the previous privatization of SOEs, the appropriate methods of valuation of assets and liabilities were not followed which resulted in an unrealistic valuation of assets of enterprises for privatization. At the same time, the procedures of privatization were not transparent. Because the buyers were not furnished with real informations rather often they were saddled with unrealistic obligations and non existent assets. There was no proper policy of selecting capable buyers also.

The privatization programme faced resistance from various corners, like Bureaucrats of the controlling Ministries, Management of SOEs, leaders of trade unions, political parties and also resistance from labours. They all were opposing privatization on account of losing their vested interests. Labours were afraid of retrenchment and shrinking of extra incomes.

The proper co-ordination with concern authorities is a must to make the programme a successful. The Privatization Board, SOEs, the Ministry of Finance, The Ministry of Industries and the Ministry of Commerce are required to have proper co-ordination among themselves. Unfortunately, there was lack of co-ordination which resulted in a policy anomalies and a gap between announcement of policies and actual implementation.

Privatization needs a strong political commitment to be successful which was absent in Bangladesh. There was also no proper institutional mechanism which slowed down the process of privatization.

There were lack of proper regulatory framework and enabling environment, and a developed 'Capital Market' which created obstacles in the process of implementation of privatization programme. A public education programme

regarding privatization and post privatization monitoring system were also largely absent in Bangladesh on account of which privatization programme did not gain much support from the public at large.

Finally, privatization 'Master plan' containing right kind of strategies and action plan for privatizing SOEs is absent.

It is now crystal clear that the privatization programme in Bangladesh needs right kind of strategies ensuring sound regulatory environment and political commitment.

7.5 Suggestions and Recommendations Regarding Prospective Strategies For Effective Implementation Of Privatization In Bangladesh.

Certain Recommendations have been made on the basis of the analysis made in the present study. These recommendation may be the guideline for successful privatization programme of Bangladesh in future. These are as follows:

Privatization is an intensely political process and involves significant social engineering. So without clear cut political mandate, it is extremely different for a privatization programme to proceed. So, political commitment from both the ruling party as well as opposition parties is essential.

The government must have a road map that where it is and where it wants to go. It means that industries must have to be particularised to be privatized and accordingly to chalk out a plan that how they would be privatized.

SOEs assets must be valued realistically. It should not be very high or very low. The concerned authority must remember that the assets must be offered for sale in which price should be estimated by the experts, not by political expediencies.

In privatizing SOEs, transaction must be transparent. In order to make it fully transparent, all kinds of requisite informations should be available to the prospective buyers so that they would be able to make independent valuation of SOEs. as well as prepare themselves for buying SOEs.

A proper criteria should be adopted for selecting a real buyers as well as a proper investigation should be conducted for testing the entrepreneurship background and capabilities of the interested buyers. The decision makers should not be influenced with political pressure.

A suitable enabling and regulatory environment must prevail so that the full benefits of privatization process can be reaped. Without a strong and effective regulatory environment, best performance can not be expected from privatization programme.

The labour question is one of the moot issues concerned with privatization of SOEs. Labours interests must be protected at all costs. In this regard, Malaysian model could be instructive. Further there should be a close, constructive dialogue between public authorities, employer's organisations and trade unions and this dialogue must be maintained before, during and after privatization. ESOP (Employee Stock Ownership Plan) may also be effective in this regard.

An education programme may be taken up describing the reasons of privatization, gains of privatization, concept of ownership, what benefits can be reaped from ownership etc. In such a way, government can get support from general public.

A post privatization monitoring programme may be carried out in order to evaluate the performance of privatized enterprises as well as to disclose it to the people of the country so that they may be influenced with privatization and may also express their opinion in regard to any post privatization difficulty. Government should also retain power to cease the authority of management of the privatized enterprises if there are sufficient evidences of any activity that goes against the interests of that enterprises.

Government should follow a set of modalities instead of a limited modalities. Each technique must be selected and applied properly for each case. It means a mix privatization strategies which will include employee buyouts, share market operations, management contracts, Boo-Bot, Private participation in sectors of state monopoly, joint public-private ownership etc. should be considered for the purpose.

In case of privatizing politically powered SOEs, government can employee marginalization and 'quiet liquidation' technique.

The economically non-viable and sick public enterprises should be liquidated which will minimised government costs.

A strong and capable capital market is a pre-requisite for success of privatization programme vis-a-vis accelerated privatization of SOEs. So, necessary steps should be taken for development of the capital market.

Bureaucratic red-tapism should be remove in order to speed up the privatization programme.

Laws on liquidation and Bankruptcy should be regulated which will simplify the process of privatization to a great extent.

Privatization programme should be carried on to all sectors like, utility, transport, energy, port and shipping as well as profitable and loss making SOEs

also, in such a way privatization will become more attractive to prospective investors.

In order to accelerate the process of privatization, a close coordination between the 'Privatization Board' and the concerned industries as well as the Ministries should be ensured. This will make the process transparent, accountable as well as paying off the workers employees of the privatized SOEs.

The privatization Board will have to be given more autonomy. It should be given the power to take decision regarding management, coordination and implementation of privatization policy.

Legislation should be enacted to allow private enterprises both indigenous and foreign, to operate in the reserved SOEs which are enjoying strong monopoly or oligopoly. Regulation should also allow foreign investors to establish, own and operate new units. This provision will attract Foreign Direct Investment (FDI).

A particular time frame should be defined to privatize all the SOEs and the criteria for selecting enterprises for early privatization will have to be decided and declared.

Experience from other Asian countries could be considered in Bangladesh where the privatization programme have successfully been carried out, such as Malaysia, Philippine, South Korea, Japan, Singapore, Sri Lanka, Thailand etc.

An internship programme may be conducted regarding the observation that how they have implemented their process of privatization and Privatization Board can arrange this type of programme.

An approach that 'perform or perish' may be followed in case of a few SOEs which would remain in the public sector for a certain period of time. If those enterprises fail to achieve the objectives set for them within that particular time, then they must be divested or privatized.

In case of large SOEs having negative networth, it may be better to disinvest them by other techniques like leasing, management contract etc. than full privatization.

Privatization is a complex and difficult process. So, the government should keep the pressure on the process instead of fixing artificial time tables for its implementation, i.e. continuation of the process is a must to achieve success of the programme.

Government should also define the complementary role of the public and private sector. It may be noted that privatization is a complement to, not a replacement for the other aspects of the development of the private sector.

It should be kept in view that economic reform including creation of condition for a stable macro-economic environment, trade liberalization, price liberalization, financial sector reform, elimination of subsidies and regulatory reform may be important elements for successful privatization programme.

A privatization 'Master Plan' is needed containing all the strategies in regard to privatizing SOEs. Such a 'Master Plan' should be made on the basis of consensus from all major political parties, Bureaucrats and private sector.

In a nutshell, it may be deduced that the privatization is not a panacea for the ills of a sick SOEs. It is a means not an end. When combined with other policy and institutional reforms, privatization and private sector development can play key role in the economic development in Bangladesh. The opportunity for playing that role will now be greater than ever with right kind of strategies as recommended in the foregoing paragraphs should be followed for effective implementation of the privatization programme.

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APPENDIX - I

LIST OF STATE - OWNED ENTERPRISES (SOEs)

MANUFACTURING:

Textile Mills Corporation
Steel & Engineering Corporation
Sugar & Food Industries Corporation
Chemical Industries Corporation
Forest Industries Development Corporation
Jute Mills Corporation

POWER, GAS, WATER

Oil, Gas & Minerals Corporation
Power Development Board
Chittagong Water Supply & Sewerage Authority
Dhaka Water Supply & Sewerage Authority
Dhaka Electricity Supply Authority

TRANSPORTATION

Shipping Corporation
Inland Water Transport Corporation
Chittagong Port Authority
Mongla Port Authority
Biman Corporation
Road Transport Corporation

TRADE/COMMERCIAL

Petroleum Corporation Units
Jute Corporation
Trading Corporation of Bangladesh

AGRICULTURE

Fisheries Development Corporation
Agricultural Development Corporation

CONSTRUCTION

Chittagong Development Authority
Rajdhani Unanayan Kartipakhya

Khulna Development Authority
Rajshahi Development Authority

OTHER/SERVICE

Film Development Corporation
Freedom Fighters Welfare Trust
Parjaton Corporation
Civil Aviation Authority
Small & Cottage Industries Corporation
Inland Water Transport Authority
Rural Electrification Board
Export Processing Zone Authority
Handloom Board
Sericulture Board
Tea Board
Bangladesh Water Development Board
Sugarcane Research & Training Centre

1. This list does not include Railways, Telephone and Telegraph and Financial SOEs.
2. BJC was closed in Financial Year 1993.

Source: Autonomous Bodies Wing, Ministry of Finance, Government of Bangladesh.